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No. 98-63

FIRST
CONCURRENT RESOLUTION ON
THE BUDGET
FY 1984

R E P O R T
OF THE
COMMITTEE ON THE BUDGET
UNITED STATES SENATE

TO ACCOMPANY

S. Con. Res. 27

SETTING FORTH THE CONGRESSIONAL BUDGET FOR THE UNITED STATES GOVERNMENT FOR THE FISCAL YEARS 1984, 1985, AND 1986, AND REVISING THE CONGRESSIONAL BUDGET FOR THE UNITED STATES GOVERNMENT FOR THE FISCAL YEAR 1983

TOGETHER WITH
ADDITIONAL AND MINORITY VIEWS



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CONCURRENT RESOLUTION

Revising the congressional budget for the United States Government for the fiscal year 1983 and setting forth the congressional budget for the United States Government for the fiscal years 1984, 1985, and 1986.

- 1 *Resolved by the Senate (the House of Representatives*
2 *concurring)*, That the Congress hereby determines and de-
3 clares that the concurrent resolution on the budget for fiscal
4 year 1983 is hereby revised, the first concurrent resolution

1 on the budget for fiscal year 1984 is hereby established, and
2 the appropriate budgetary levels for fiscal years 1985 and
3 1986 are hereby set forth:

4 (a) The following budgetary levels are appropriate for
5 the fiscal years beginning on October 1, 1982, October 1,
6 1983, October 1, 1984, and October 1, 1985:

7 (1) The recommended levels of Federal revenues
8 are as follows:

9 Fiscal year 1983: \$603,100,000,000.

10 Fiscal year 1984: \$685,600,000,000.

11 Fiscal year 1985: \$762,600,000,000.

12 Fiscal year 1986: \$830,800,000,000.

13 and the amounts by which the aggregate levels of Fed-
14 eral revenues should be changed are as follows:

15 Fiscal year 1983: —\$100,000,000.

16 Fiscal year 1984: +\$30,200,000,000.

17 Fiscal year 1985: +\$39,100,000,000.

18 Fiscal year 1986: +\$51,900,000,000.

19 and the amounts for Federal Insurance Contributions
20 Act revenues for hospital insurance within the recom-
21 mended levels of Federal revenues are as follows:

22 Fiscal year 1983: \$35,900,000,000.

23 Fiscal year 1984: \$39,700,000,000.

24 Fiscal year 1985: \$44,200,000,000.

25 Fiscal year 1986: \$50,900,000,000.

1 and the amounts for Federal Insurance Contributions
2 Act revenues and other revenues pursuant to Public
3 Law 98-21 for old age, survivors, and disability insur-
4 ance within the recommended levels of Federal rev-
5 enues are as follows:

6 Fiscal year 1983: \$148,500,000,000.

7 Fiscal year 1984: \$166,500,000,000.

8 Fiscal year 1985: \$187,700,000,000.

9 Fiscal year 1986: \$204,400,000,000.

10 (2) The appropriate levels of total new budget au-
11 thority are as follows:

12 Fiscal year 1983: \$875,700,000,000.

13 Fiscal year 1984: \$908,800,000,000.

14 Fiscal year 1985: \$981,500,000,000.

15 Fiscal year 1986: \$1,048,500,000,000.

16 (3) The appropriate levels of total budget outlays
17 are as follows:

18 Fiscal year 1983: \$807,100,000,000.

19 Fiscal year 1984: \$848,900,000,000.

20 Fiscal year 1985: \$909,600,000,000.

21 Fiscal year 1986: \$964,000,000,000.

22 (4) The amounts of the deficits in the budget
23 which are appropriate in the light of economic condi-
24 tions and all other relevant factors are as follows:

25 Fiscal year 1983: \$204,000,000,000.

1 Fiscal year 1984: \$163,300,000,000.

2 Fiscal year 1985: \$147,000,000,000.

3 Fiscal year 1986: \$133,200,000,000.

4 (5) The appropriate levels of the public debt are
5 as follows:

6 Fiscal year 1983: \$1,383,900,000,000.

7 Fiscal year 1984: \$1,591,100,000,000.

8 Fiscal year 1985: \$1,788,800,000,000.

9 Fiscal year 1986: \$1,979,600,000,000.

10 and the amounts by which the temporary statutory
11 limits on such debt should be accordingly increased are
12 as follows:

13 Fiscal year 1983: \$93,700,000,000.

14 Fiscal year 1984: \$207,200,000,000.

15 Fiscal year 1985: \$197,700,000,000.

16 Fiscal year 1986: \$190,800,000,000.

17 (6) The appropriate levels of total Federal credit
18 activity for the fiscal years beginning on October 1,
19 1982, October 1, 1983, October 1, 1984, and October
20 1, 1985, are as follows:

21 Fiscal year 1983:

22 (A) New direct loan obligations,
23 \$55,400,000,000.

24 (B) New loan guarantee commitments,
25 \$94,500,000,000.

IX

5

1 Fiscal year 1984:

2 (A) New direct loan obligations,
3 \$48,200,000,000.

4 (B) New loan guarantee commitments,
5 \$94,500,000,000.

6 Fiscal year 1985:

7 (A) New direct loan obligations,
8 \$48,100,000,000.

9 (B) New loan guarantee commitments,
10 \$97,400,000,000.

11 Fiscal year 1986:

12 (A) New direct loan obligations,
13 \$48,700,000,000.

14 (B) New loan guarantee commitments,
15 \$101,000,000,000.

16 (b) The Congress hereby determines and declares the
17 appropriate levels of budget authority and budget outlays,
18 and the appropriate levels of new direct loan obligations and
19 new loan guarantee commitments for fiscal years 1983
20 through 1986 for each major functional category are:

21 (1) National Defense (050):

22 Fiscal year 1983:

23 (A) New budget authority,
24 \$244,100,000,000.

25 (B) Outlays, \$214,300,000,000.

1 (C) New direct loan obligations, \$0.

2 (D) New loan guarantee commitments, \$0.

3 Fiscal year 1984:

4 (A) New budget authority,

5 \$267,000,000,000.

6 (B) Outlays, \$241,500,000,000.

7 (C) New direct loan obligations, \$0.

8 (D) New loan guarantee commitments, \$0.

9 Fiscal year 1985:

10 (A) New budget authority,

11 \$299,500,000,000.

12 (B) Outlays, \$270,700,000,000.

13 (C) New direct loan obligations, \$0.

14 (D) New loan guarantee commitments, \$0.

15 Fiscal year 1986:

16 (A) New budget authority,

17 \$334,800,000,000.

18 (B) Outlays, \$300,000,000,000.

19 (C) New direct loan obligations, \$0.

20 (D) New loan guarantee commitments, \$0.

21 (2) International Affairs (150):

22 Fiscal year 1983:

23 (A) New budget authority, \$24,900,000,000.

24 (B) Outlays, \$11,500,000,000.

1 (C) New direct loan obligations,
2 \$11,700,000,000.

3 (D) New loan guarantee commitments,
4 \$9,200,000,000.

5 Fiscal year 1984:

6 (A) New budget authority, \$18,200,000,000.

7 (B) Outlays, \$12,700,000,000.

8 (C) New direct loan obligations,
9 \$11,200,000,000.

10 (D) New loan guarantee commitments,
11 \$10,300,000,000.

12 Fiscal year 1985:

13 (A) New budget authority, \$16,500,000,000.

14 (B) Outlays, \$12,800,000,000.

15 (C) New direct loan obligations,
16 \$11,500,000,000.

17 (D) New loan guarantee commitments,
18 \$10,300,000,000.

19 Fiscal year 1986:

20 (A) New budget authority, \$15,900,000,000.

21 (B) Outlays, \$12,800,000,000.

22 (C) New direct loan obligations,
23 \$11,600,000,000.

24 (D) New loan guarantee commitments,
25 \$10,300,000,000.

1 (3) General Science, Space, and Technology (250):

2 Fiscal year 1983:

3 (A) New budget authority, \$7,900,000,000.

4 (B) Outlays, \$7,700,000,000.

5 (C) New direct loan obligations,
6 \$200,000,000.

7 (D) New loan guarantee commitments, \$0.

8 Fiscal year 1984:

9 (A) New budget authority, \$8,500,000,000.

10 (B) Outlays, \$8,200,000,000.

11 (C) New direct loan obligations,
12 \$37,000,000.

13 (D) New loan guarantee commitments, \$0.

14 Fiscal year 1985:

15 (A) New budget authority, \$8,500,000,000.

16 (B) Outlays, \$8,500,000,000.

17 (C) New direct loan obligations, \$0.

18 (D) New loan guarantee commitments, \$0.

19 Fiscal year 1986:

20 (A) New budget authority, \$8,400,000,000.

21 (B) Outlays, \$8,400,000,000.

22 (C) New direct loan obligations, \$0.

23 (D) New loan guarantee commitments, \$0.

24 (4) Energy (270):

25 Fiscal year 1983:

XIII

9

1 (A) New budget authority, \$4,000,000,000.

2 (B) Outlays, \$4,600,000,000.

3 (C) New direct loan obligations,
4 \$13,100,000,000.

5 (D) New loan guarantee commitments,
6 \$200,000,000.

7 Fiscal year 1984:

8 (A) New budget authority, \$3,900,000,000.

9 (B) Outlays, \$4,100,000,000.

10 (C) New direct loan obligations,
11 \$13,900,000,000.

12 (D) New loan guarantee commitments,
13 \$200,000,000.

14 Fiscal year 1985:

15 (A) New budget authority, \$3,600,000,000.

16 (B) Outlays, \$2,900,000,000.

17 (C) New direct loan obligations,
18 \$14,300,000,000.

19 (D) New loan guarantee commitments, \$0.

20 Fiscal year 1986:

21 (A) New budget authority, \$3,200,000,000.

22 (B) Outlays, \$2,700,000,000.

23 (C) New direct loan obligations,
24 \$14,400,000,000.

25 (D) New loan guarantee commitments, \$0.

1 (5) Natural Resources and Environment (300):

2 Fiscal year 1983:

3 (A) New budget authority, \$12,500,000,000.

4 (B) Outlays, \$12,800,000,000.

5 (C) New direct loan obligations,
6 \$100,000,000.

7 (D) New loan guarantee commitments, \$0.

8 Fiscal year 1984:

9 (A) New budget authority, \$12,000,000,000.

10 (B) Outlays, \$12,500,000,000.

11 (C) New direct loan obligations,
12 \$27,000,000.

13 (D) New loan guarantee commitments, \$0.

14 Fiscal year 1985:

15 (A) New budget authority, \$12,200,000,000.

16 (B) Outlays, \$12,600,000,000.

17 (C) New direct loan obligations,
18 \$27,000,000.

19 (D) New loan guarantee commitments, \$0.

20 Fiscal year 1986:

21 (A) New budget authority, \$12,500,000,000.

22 (B) Outlays, \$12,200,000,000.

23 (C) New direct loan obligations,
24 \$27,000,000.

25 (D) New loan guarantee commitments, \$0.

- 1 (6) Agriculture (350):
- 2 Fiscal year 1983:
- 3 (A) New budget authority, \$24,200,000,000.
- 4 (B) Outlays, \$24,000,000,000.
- 5 (C) New direct loan obligations,
- 6 \$18,600,000,000.
- 7 (D) New loan guarantee commitments,
- 8 \$5,500,000,000.
- 9 Fiscal year 1984:
- 10 (A) New budget authority, \$11,600,000,000.
- 11 (B) Outlays, \$11,400,000,000.
- 12 (C) New direct loan obligations,
- 13 \$12,100,000,000.
- 14 (D) New loan guarantee commitments,
- 15 \$3,800,000,000.
- 16 Fiscal year 1985:
- 17 (A) New budget authority, \$14,000,000,000.
- 18 (B) Outlays, \$12,300,000,000.
- 19 (C) New direct loan obligations,
- 20 \$11,700,000,000.
- 21 (D) New loan guarantee commitments,
- 22 \$3,800,000,000.
- 23 Fiscal year 1986:
- 24 (A) New budget authority, \$13,200,000,000.
- 25 (B) Outlays, \$13,100,000,000.

1 (C) New direct loan obligations,
2 \$12,200,000,000.

3 (D) New loan guarantee commitments,
4 \$3,800,000,000.

5 (7) Commerce and Housing Credit (370):

6 Fiscal year 1983:

7 (A) New budget authority, \$5,200,000,000.

8 (B) Outlays, \$2,700,000,000.

9 (C) New direct loan obligations,
10 \$6,500,000,000.

11 (D) New loan guarantee commitments,
12 \$48,700,000,000.

13 Fiscal year 1984:

14 (A) New budget authority, \$5,900,000,000.

15 (B) Outlays, \$1,800,000,000.

16 (C) New direct loan obligations,
17 \$6,400,000,000.

18 (D) New loan guarantee commitments,
19 \$48,700,000,000.

20 Fiscal year 1985:

21 (A) New budget authority, \$6,500,000,000.

22 (B) Outlays, \$0.

23 (C) New direct loan obligations,
24 \$6,300,000,000.

1 (D) New loan guarantee commitments,
2 \$48,700,000,000.

3 Fiscal year 1986:

4 (A) New budget authority, \$6,500,000,000.

5 (B) Outlays, — \$300,000,000.

6 (C) New direct loan obligations,
7 \$6,300,000,000.

8 (D) New loan guarantee commitments,
9 \$48,700,000,000.

10 (8) Transportation (400):

11 Fiscal year 1983:

12 (A) New budget authority, \$26,800,000,000.

13 (B) Outlays, \$22,100,000,000.

14 (C) New direct loan obligations,
15 \$200,000,000.

16 (D) New loan guarantee commitments,
17 \$1,100,000,000.

18 Fiscal year 1984:

19 (A) New budget authority, \$27,700,000,000.

20 (B) Outlays, \$25,900,000,000.

21 (C) New direct loan obligations,
22 \$100,000,000.

23 (D) New loan guarantee commitments,
24 \$600,000,000.

25 Fiscal year 1985:

1 (A) New budget authority, \$28,400,000,000.

2 (B) Outlays, \$26,900,000,000.

3 (C) New direct loan obligations,
4 \$100,000,000.

5 (D) New loan guarantee commitments,
6 \$400,000,000.

7 Fiscal year 1986:

8 (A) New budget authority, \$29,200,000,000.

9 (B) Outlays, \$27,800,000,000.

10 (C) New direct loan obligations,
11 \$100,000,000.

12 (D) New loan guarantee commitments,
13 \$300,000,000.

14 (9) Community and Regional Development (450):

15 Fiscal year 1983:

16 (A) New budget authority, \$8,300,000,000.

17 (B) Outlays, \$7,900,000,000.

18 (C) New direct loan obligations,
19 \$2,100,000,000.

20 (D) New loan guarantee commitments,
21 \$500,000,000.

22 Fiscal year 1984:

23 (A) New budget authority, \$6,600,000,000.

24 (B) Outlays, \$8,100,000,000.

1 (C) New direct loan obligations,
2 \$1,700,000,000.

3 (D) New loan guarantee commitments,
4 \$300,000,000.

5 Fiscal year 1985:

6 (A) New budget authority, \$7,100,000,000.

7 (B) Outlays, \$8,200,000,000.

8 (C) New direct loan obligations,
9 \$1,800,000,000.

10 (D) New loan guarantee commitments,
11 \$300,000,000.

12 Fiscal year 1986:

13 (A) New budget authority, \$7,100,000,000.

14 (B) Outlays, \$7,600,000,000.

15 (C) New direct loan obligations,
16 \$1,800,000,000.

17 (D) New loan guarantee commitments,
18 \$400,000,000.

19 (10) Education, Training, Employment, and Social
20 Services (500):

21 Fiscal year 1983:

22 (A) New budget authority, \$28,000,000,000.

23 (B) Outlays, \$26,800,000,000.

24 (C) New direct loan obligations,
25 \$600,000,000.

1 (D) New loan guarantee commitments,
2 \$6,500,000,000.

3 Fiscal year 1984:

4 (A) New budget authority, \$30,800,000,000.

5 (B) Outlays, \$27,000,000,000.

6 (C) New direct loan obligations,
7 \$700,000,000.

8 (D) New loan guarantee commitments,
9 \$6,600,000,000.

10 Fiscal year 1985:

11 (A) New budget authority, \$27,500,000,000.

12 (B) Outlays, \$27,400,000,000.

13 (C) New direct loan obligations,
14 \$700,000,000.

15 (D) New loan guarantee commitments,
16 \$6,600,000,000.

17 Fiscal year 1986:

18 (A) New budget authority, \$27,500,000,000.

19 (B) Outlays, \$27,400,000,000.

20 (C) New direct loan obligations,
21 \$800,000,000.

22 (D) New loan guarantee commitments,
23 \$6,600,000,000.

24 (11) Health (550):

25 Fiscal year 1983:

1 (A) New budget authority, \$25,100,000,000.

2 (B) Outlays, \$29,600,000,000.

3 (C) New direct loan obligations,
4 \$47,000,000.

5 (D) New loan guarantee commitments,
6 \$200,000,000.

7 Fiscal year 1984:

8 (A) New budget authority, \$31,800,000,000.

9 (B) Outlays, \$31,800,000,000.

10 (C) New direct loan obligations,
11 \$29,000,000.

12 (D) New loan guarantee commitments,
13 \$300,000,000.

14 Fiscal year 1985:

15 (A) New budget authority, \$35,000,000,000.

16 (B) Outlays, \$34,500,000,000.

17 (C) New direct loan obligations,
18 \$28,000,000.

19 (D) New loan guarantee commitments,
20 \$300,000,000.

21 Fiscal year 1986:

22 (A) New budget authority, \$37,800,000,000.

23 (B) Outlays, \$37,200,000,000.

24 (C) New direct loan obligations,
25 \$28,000,000.

1 (D) New loan guarantee commitments,
2 \$300,000,000.

3 (12) Medical Insurance (570):

4 Fiscal year 1983:

5 (A) New budget authority, \$46,100,000,000.

6 (B) Outlays, \$53,100,000,000.

7 (C) New direct loan obligations, \$0.

8 (D) New loan guarantee commitments, \$0.

9 Fiscal year 1984:

10 (A) New budget authority, \$61,400,000,000.

11 (B) Outlays, \$60,300,000,000.

12 (C) New direct loan obligations, \$0.

13 (D) New loan guarantee commitments, \$0.

14 Fiscal year 1985:

15 (A) New budget authority, \$69,400,000,000.

16 (B) Outlays, \$68,300,000,000.

17 (C) New direct loan obligations, \$0.

18 (D) New loan guarantee commitments, \$0.

19 Fiscal year 1986:

20 (A) New budget authority, \$79,100,000,000.

21 (B) Outlays, \$75,600,000,000.

22 (C) New direct loan obligations, \$0.

23 (D) New loan guarantee commitments, \$0.

24 (13) Income Security (600):

25 Fiscal year 1983:

1 (A) New budget authority,

2 \$121,700,000,000.

3 (B) Outlays, \$110,200,000,000.

4 (C) New direct loan obligations,

5 \$1,000,000,000.

6 (D) New loan guarantee commitments,

7 \$14,600,000,000.

8 Fiscal year 1984:

9 (A) New budget authority,

10 \$126,000,000,000.

11 (B) Outlays, \$104,100,000,000.

12 (C) New direct loan obligations,

13 \$1,000,000,000.

14 (D) New loan guarantee commitments,

15 \$14,700,000,000.

16 Fiscal year 1985:

17 (A) New budget authority,

18 \$127,500,000,000.

19 (B) Outlays, \$105,500,000,000.

20 (C) New direct loan obligations,

21 \$800,000,000.

22 (D) New loan guarantee commitments,

23 \$16,500,000,000.

24 Fiscal year 1986:

1 (A) New budget authority,

2 \$131,400,000,000.

3 (B) Outlays, \$108,600,000,000.

4 (C) New direct loan obligations,

5 \$500,000,000.

6 (D) New loan guarantee commitments,

7 \$18,100,000,000.

8 (14) Social Security (650):

9 Fiscal year 1983:

10 (A) New budget authority,

11 \$184,100,000,000.

12 (B) Outlays, \$167,600,000,000.

13 (C) New direct loan obligations, \$0.

14 (D) New loan guarantee commitments, \$0.

15 Fiscal year 1984:

16 (A) New budget authority,

17 \$174,900,000,000.

18 (B) Outlays, \$177,100,000,000.

19 (C) New direct loan obligations, \$0.

20 (D) New loan guarantee commitments, \$0.

21 Fiscal year 1985:

22 (A) New budget authority,

23 \$194,700,000,000.

24 (B) Outlays, \$188,400,000,000.

25 (C) New direct loan obligations, \$0.

1 (D) New loan guarantee commitments, \$0.

2 Fiscal year 1986:

3 (A) New budget authority,
4 \$211,000,000,000.

5 (B) Outlays, \$200,800,000,000.

6 (C) New direct loan obligations, \$0.

7 (D) New loan guarantee commitments, \$0.

8 (15) Veterans Benefits and Services (700):

9 Fiscal year 1983:

10 (A) New budget authority, \$25,200,000,000.

11 (B) Outlays, \$24,500,000,000.

12 (C) New direct loan obligations,
13 \$1,000,000,000.

14 (D) New loan guarantee commitments,
15 \$8,000,000,000.

16 Fiscal year 1984:

17 (A) New budget authority, \$25,700,000,000.

18 (B) Outlays, \$25,700,000,000.

19 (C) New direct loan obligations,
20 \$800,000,000.

21 (D) New loan guarantee commitments,
22 \$9,000,000,000.

23 Fiscal year 1985:

24 (A) New budget authority, \$26,800,000,000.

25 (B) Outlays, \$26,400,000,000.

- 1 (C) New direct loan obligations,
2 \$600,000,000.
- 3 (D) New loan guarantee commitments,
4 \$10,500,000,000.
- 5 Fiscal year 1986:
- 6 (A) New budget authority, \$27,300,000,000.
- 7 (B) Outlays, \$26,700,000,000.
- 8 (C) New direct loan obligations,
9 \$700,000,000.
- 10 (D) New loan guarantee commitments,
11 \$12,500,000,000.
- 12 (16) Administration of Justice (750):
- 13 Fiscal year 1983:
- 14 (A) New budget authority, \$5,200,000,000.
- 15 (B) Outlays, \$5,100,000,000.
- 16 (C) New direct loan obligations, \$0.
- 17 (D) New loan guarantee commitments, \$0.
- 18 Fiscal year 1984:
- 19 (A) New budget authority, \$6,000,000,000.
- 20 (B) Outlays, \$6,000,000,000.
- 21 (C) New direct loan obligations, \$0.
- 22 (D) New loan guarantee commitments, \$0.
- 23 Fiscal year 1985:
- 24 (A) New budget authority, \$5,800,000,000.
- 25 (B) Outlays, \$5,900,000,000.

1 (C) New direct loan obligations, \$0.

2 (D) New loan guarantee commitments, \$0.

3 Fiscal year 1986:

4 (A) New budget authority, \$5,900,000,000.

5 (B) Outlays, \$5,800,000,000.

6 (C) New direct loan obligations, \$0.

7 (D) New loan guarantee commitments, \$0.

8 (17) General Government (800):

9 Fiscal year 1983:

10 (A) New budget authority, \$5,600,000,000.

11 (B) Outlays, \$5,700,000,000.

12 (C) New direct loan obligations, \$0.

13 (D) New loan guarantee commitments, \$0.

14 Fiscal year 1984:

15 (A) New budget authority, \$5,700,000,000.

16 (B) Outlays, \$5,700,000,000.

17 (C) New direct loan obligations, \$0.

18 (D) New loan guarantee commitments, \$0.

19 Fiscal year 1985:

20 (A) New budget authority, \$6,000,000,000.

21 (B) Outlays, \$5,800,000,000.

22 (C) New direct loan obligations, \$0.

23 (D) New loan guarantee commitments, \$0.

24 Fiscal year 1986:

25 (A) New budget authority, \$6,200,000,000.

- 1 (B) Outlays, \$5,900,000,000.
- 2 (C) New direct loan obligations, \$0.
- 3 (D) New loan guarantee commitments, \$0.
- 4 (18) General Purpose Fiscal Assistance (850):
- 5 Fiscal year 1983:
- 6 (A) New budget authority, \$6,400,000,000.
- 7 (B) Outlays, \$6,400,000,000.
- 8 (C) New direct loan obligations,
- 9 \$300,000,000.
- 10 (D) New loan guarantee commitments, \$0.
- 11 Fiscal year 1984:
- 12 (A) New budget authority, \$7,100,000,000.
- 13 (B) Outlays, \$7,000,000,000.
- 14 (C) New direct loan obligations,
- 15 \$300,000,000.
- 16 (D) New loan guarantee commitments, \$0.
- 17 Fiscal year 1985:
- 18 (A) New budget authority, \$7,200,000,000.
- 19 (B) Outlays, \$7,100,000,000.
- 20 (C) New direct loan obligations,
- 21 \$300,000,000.
- 22 (D) New loan guarantee commitments, \$0.
- 23 Fiscal year 1986:
- 24 (A) New budget authority, \$7,500,000,000.
- 25 (B) Outlays, \$7,500,000,000.

1 (C) New direct loan obligations,
2 \$300,000,000.

3 (D) New loan guarantee commitments, \$0.

4 (19) Net Interest (900):

5 Fiscal year 1983:

6 (A) New budget authority, \$87,600,000,000.

7 (B) Outlays, \$87,600,000,000.

8 (C) New direct loan obligations, \$0.

9 (D) New loan guarantee commitments, \$0.

10 Fiscal year 1984:

11 (A) New budget authority, \$95,300,000,000.

12 (B) Outlays, \$95,300,000,000.

13 (C) New direct loan obligations, \$0.

14 (D) New loan guarantee commitments, \$0.

15 Fiscal year 1985:

16 (A) New budget authority,

17 \$102,100,000,000.

18 (B) Outlays, \$102,100,000,000.

19 (C) New direct loan obligations, \$0.

20 (D) New loan guarantee commitments, \$0.

21 Fiscal year 1986:

22 (A) New budget authority,

23 \$104,300,000,000.

24 (B) Outlays, \$104,300,000,000.

25 (C) New direct loan obligations, \$0.

1 (D) New loan guarantee commitments, \$0.

2 (20) Allowances (920):

3 Fiscal year 1983:

4 (A) New budget authority, \$800,000,000.

5 (B) Outlays, \$900,000,000.

6 (C) New direct loan obligations, \$0.

7 (D) New loan guarantee commitments, \$0.

8 Fiscal year 1984:

9 (A) New budget authority, \$600,000,000.

10 (B) Outlays, \$600,000,000.

11 (C) New direct loan obligations, \$0.

12 (D) New loan guarantee commitments, \$0.

13 Fiscal year 1985:

14 (A) New budget authority, \$1,900,000,000.

15 (B) Outlays, \$2,000,000,000.

16 (C) New direct loan obligations, \$0.

17 (D) New loan guarantee commitments, \$0.

18 Fiscal year 1986:

19 (A) New budget authority, \$3,200,000,000.

20 (B) Outlays, \$3,400,000,000.

21 (C) New direct loan obligations, \$0.

22 (D) New loan guarantee commitments, \$0.

23 (21) Undistributed Offsetting Receipts (950):

24 Fiscal year 1983:

1 (A) New budget authority,
2 —\$18,000,000,000.

3 (B) Outlays, —\$18,000,000,000.

4 (C) New direct loan obligations, \$0.

5 (D) New loan guarantee commitments, \$0.

6 Fiscal year 1984:

7 (A) New budget authority,
8 —\$17,900,000,000.

9 (B) Outlays, —\$17,900,000,000.

10 (C) New direct loan obligations, \$0.

11 (D) New loan guarantee commitments, \$0.

12 Fiscal year 1985:

13 (A) New budget authority,
14 —\$18,700,000,000.

15 (B) Outlays, —\$18,700,000,000.

16 (C) New direct loan obligations, \$0.

17 (D) New loan guarantee commitments, \$0.

18 Fiscal year 1986:

19 (A) New budget authority,
20 —\$23,500,000,000.

21 (B) Outlays, —\$23,500,000,000.

22 (C) New direct loan obligations, \$0.

23 (D) New loan guarantee commitments, \$0.

1

RECONCILIATION

2 SEC. 2. (a) Not later than June 6, 1983, the Senate
3 committees named in subsections (b) through (f) of this sec-
4 tion shall submit their recommendations to the Senate Com-
5 mittee on the Budget and not later than June 6, 1983, the
6 House committees named in subsections (g) through (l) of this
7 section shall submit their recommendations to the House
8 Committee on the Budget. After receiving those recommen-
9 dations, the Committees on the Budget shall report to the
10 House and Senate a reconciliation bill or resolution or both
11 carrying out all such recommendations without any substan-
12 tive revision.

13

SENATE COMMITTEES

14 (b) The Senate Committee on Agriculture, Nutrition,
15 and Forestry shall report changes in laws within the jurisdic-
16 tion of that committee, (A) to require reductions in appropri-
17 ations for programs authorized by that committee so as to
18 achieve savings in budget authority and outlays, or (B) which
19 provide spending authority as defined in section 401(c)(2)(C)
20 of Public Law 93-344, sufficient to reduce budget authority
21 and outlays, or (C) any combination thereof, as follows:
22 \$1,243,000,000 in budget authority and \$1,243,000,000 in
23 outlays in fiscal year 1984; \$1,332,000,000 in budget au-
24 thority and \$1,332,000,000 in outlays in fiscal year 1985;

1 and \$1,327,000,000 in budget authority and \$1,327,000,000
2 in outlays in fiscal year 1986.

3 (c)(1) The Senate Committee on Finance shall report
4 changes in laws within the jurisdiction of that committee
5 which provide spending authority as defined in section
6 401(c)(2)(C) of Public Law 93-344, sufficient to reduce out-
7 lays by \$856,000,000 in fiscal year 1984; to reduce outlays
8 by \$2,024,000,000 in fiscal year 1985; and to reduce outlays
9 by \$2,484,000,000 in fiscal year 1986.

10 (2) The Senate Committee on Finance shall report
11 changes in laws within the jurisdiction of that committee suf-
12 ficient to increase revenues as follows: \$30,200,000,000 in
13 fiscal year 1984; \$39,100,000,000 in fiscal year 1985; and
14 \$51,900,000,000 in fiscal year 1986.

15 (d) The Senate Committee on Governmental Affairs
16 shall report changes in laws within the jurisdiction of that
17 committee which provide spending authority as defined in
18 section 401(c)(2)(C) of Public Law 93-344, sufficient to
19 reduce budget authority by \$258,000,000 and outlays by
20 \$534,000,000 in fiscal year 1984; to reduce budget authority
21 by \$368,000,000 and outlays by \$834,000,000 in fiscal year
22 1985; and to reduce budget authority by \$636,000,000 and
23 outlays by \$1,486,000,000 in fiscal year 1986.

24 (e) The Senate Committee on Small Business shall
25 report changes in laws within the jurisdiction of that commit-

tee to require reductions in appropriations for programs authorized by that committee so as to achieve savings in budget authority and outlays as follows: \$139,000,000 in budget authority and \$287,000,000 in outlays in fiscal year 1984; \$555,000,000 in budget authority and \$466,000,000 in outlays in fiscal year 1985; and \$544,000,000 in budget authority and \$443,000,000 in outlays in fiscal year 1986.

(f) The Senate Committee on Veterans' Affairs shall report changes in laws within the jurisdiction of that committee which provide spending authority as defined in section 401(c)(2)(C) of Public Law 93-344, sufficient to reduce budget authority by \$202,000,000 and outlays by \$201,000,000 in fiscal year 1984; to reduce budget authority by \$117,000,000 and outlays by \$115,000,000 in fiscal year 1985; and to reduce budget authority by \$118,000,000 and outlays by \$118,000,000 in fiscal year 1986.

HOUSE COMMITTEES

(g) The House Committee on Agriculture shall report changes in laws within the jurisdiction of that committee, (A) to require reductions in appropriations for programs authorized by that committee so as to achieve savings in budget authority and outlays, or (B) which provide spending authority as defined in section 401(c)(2)(C) of Public Law 93-344, sufficient to reduce budget authority and outlays, or (C) any combination thereof, as follows: \$1,243,000,000 in budget

1 authority and \$1,243,000,000 in outlays in fiscal year 1984;
2 \$1,332,000,000 in budget authority and \$1,332,000,000 in
3 outlays in fiscal year 1985; and \$1,327,000,000 in budget
4 authority and \$1,327,000,000 in outlays in fiscal year 1986.

5 (h) The House Committee on Energy and Commerce
6 shall report changes in laws within the jurisdiction of that
7 committee which provide spending authority as defined in
8 section 401(c)(2)(C) of Public Law 93-344, sufficient to
9 reduce outlays by \$816,000,000 in fiscal year 1984; to
10 reduce outlays by \$1,538,000,000 in fiscal year 1985; and to
11 reduce outlays by \$1,979,000,000 in fiscal year 1986.

12 (i) The House Committee on Post Office and Civil Serv-
13 ice shall report changes in laws within the jurisdiction of that
14 committee which provide spending authority as defined in
15 section 401(c)(2)(C) of Public Law 93-344, sufficient to
16 reduce budget authority by \$258,000,000 and outlays by
17 \$534,000,000 in fiscal year 1984; to reduce budget authority
18 by \$368,000,000 and outlays by \$834,000,000 in fiscal year
19 1985; and to reduce budget authority by \$636,000,000 and
20 outlays by \$1,486,000,000 in fiscal year 1986.

21 (j) The House Committee on Small Business shall report
22 changes in laws within the jurisdiction of that committee to
23 require reductions in appropriations for programs authorized
24 by that committee so as to achieve savings in budget authori-
25 ty and outlays as follows: \$139,000,000 in budget authority

1 and \$287,000,000 in outlays in fiscal year 1984;
2 \$555,000,000 in budget authority and \$466,000,000 in out-
3 lays in fiscal year 1985; and \$544,000,000 in budget authori-
4 ty and \$443,000,000 in outlays in fiscal year 1986.

5 (k) The House Committee on Veterans' Affairs shall
6 report changes in laws within the jurisdiction of that commit-
7 tee which provide spending authority as defined in section
8 401(c)(2)(C) of Public Law 93-344, sufficient to reduce
9 budget authority by \$202,000,000 and outlays by
10 \$201,000,000 in fiscal year 1984; to reduce budget authority
11 by \$117,000,000 and outlays by \$115,000,000 in fiscal year
12 1985; and to reduce budget authority by \$118,000,000 and
13 outlays by \$118,000,000 in fiscal year 1986.

14 (l)(1) The House Committee on Ways and Means shall
15 report changes in laws within the jurisdiction of that commit-
16 tee which provide spending authority as defined in section
17 401(c)(2)(C) of Public Law 93-344, sufficient to reduce out-
18 lays by \$849,000,000 in fiscal year 1984; to reduce outlays
19 by \$1,481,000,000 in fiscal year 1985; and to reduce outlays
20 by \$2,077,000,000 in fiscal year 1986.

21 (2) The House Committee on Ways and Means shall
22 report changes in laws within the jurisdiction of that commit-
23 tee sufficient to increase revenues as follows:
24 \$30,200,000,000 in fiscal year 1984; \$39,100,000,000 in
25 fiscal year 1985; and \$51,900,000,000 in fiscal year 1986.

1 MISCELLANEOUS PROVISIONS

2 SEC. 3. It shall not be in order in either the House of
3 Representatives or the Senate to consider any bill or resolu-
4 tion, or amendment thereto, providing—

5 (1) new budget authority for fiscal year 1984; or

6 (2) new spending authority described in section
7 401(c)(2)(C) of the Budget Act first effective in fiscal
8 year 1984,

9 within the jurisdiction of any of its committees unless and
10 until such committee makes the allocations or subdivisions
11 required by section 302(b) of the Budget Act, in connection
12 with the most recently agreed to concurrent resolution on the
13 budget.

14 SEC. 4. It is the sense of the Congress that the Presi-
15 dent and the Congress, through the appropriations process,
16 should limit the on-budget new direct loan obligations of the
17 Federal Government to an amount not to exceed
18 \$37,600,000,000 in fiscal year 1983 and \$29,300,000,000 in
19 fiscal year 1984; off-budget new direct loan obligations to an
20 amount not to exceed \$17,800,000,000 in fiscal year 1983
21 and \$18,900,000,000 in fiscal year 1984; and new loan guar-
22 antee commitments to an amount not to exceed
23 \$94,500,000,000 in fiscal year 1983 and \$94,500,000,000 in
24 fiscal year 1984. It is further the sense of the Congress that
25 the President and the Congress should limit total Federal

1 Financing Bank origination of direct loans guaranteed by
2 other Federal agencies to \$16,200,000,000 in fiscal year
3 1983 and \$17,300,000,000 in fiscal year 1984, and Federal
4 Financing Bank purchases of certificates of beneficial owner-
5 ship from Federal agencies to \$11,500,000,000 in fiscal year
6 1983 and \$13,200,000,000 in fiscal year 1984. It is further
7 the sense of the Congress that direct borrowing transactions
8 of Federal agencies should be, to the maximum extent possi-
9 ble, restricted to the Federal Financing Bank.

10 SEC. 5. (a) The joint explanatory statement accompany-
11 ing the conference report on this resolution shall include an
12 estimated allocation, based upon the first section of this reso-
13 lution as recommended in such conference report, of the ap-
14 propriate levels of total new direct loan obligations and new
15 loan guarantee commitments for fiscal year 1983 and fiscal
16 year 1984, among each committee of the House of Repre-
17 sentatives and the Senate which has jurisdiction over bills
18 and resolutions providing such new obligations and commit-
19 ments.

20 (b) As soon as practicable after this resolution is agreed
21 to, every committee of each House, after consulting with the
22 committee or committees of the other House to which all or
23 part of the allocation has been made, shall subdivide among
24 its subcommittees the allocation of new direct loan obliga-
25 tions and new loan guarantee commitments for fiscal year

1 1983 and fiscal year 1984, allocated to it in the joint ex-
2 planatory statement accompanying the conference report on
3 this resolution.

4 SEC. 6. It is the sense of the Congress that the budgets
5 of Federal agencies initiating Federal Financing Bank pur-
6 chases of certificates of beneficial ownership and originations
7 of guaranteed loans should include the budget authority and
8 outlays resulting from the transactions. The Congress recom-
9 mends that the committees with jurisdiction over the Federal
10 Financing Bank Act of 1973 consider expeditiously legisla-
11 tion to require that the budgetary impact of such Federal
12 Financing Bank transactions be included in the budgets of the
13 initiating agencies beginning with the fiscal year 1985
14 budget.

Calendar No. 99

98TH CONGRESS }
1st Session }

SENATE

{ REPORT
No. 98-63

FIRST CONCURRENT RESOLUTION ON THE BUDGET— FISCAL YEAR 1984

APRIL 24, 1983.—Ordered to be printed

Mr. DOMENICI, from the Committee on the Budget,
submitted the following

REPORT

together with

ADDITIONAL AND MINORITY VIEWS

[To accompany S. Con. Res. 27]

The Committee on the Budget submits the following report, accompanying the First Concurrent Resolution on the Budget setting forth the Congressional Budget for the United States Government for the fiscal years 1984, 1985, and 1986, and revising the Congressional Budget for the United States Government for the fiscal year 1983, pursuant to the Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344).

Chapter I. INTRODUCTION AND OVERVIEW

MAJOR NATIONAL PROBLEMS AFFECTING THE BUDGET

The First Concurrent Resolution on the Budget for FY 1984 responds to the economic problems confronting the Nation and the large deficits confronting the Federal Government.

It builds upon the fundamental fiscal policy changes instituted by the Congress for FY 1982 and FY 1983—cutting dramatically the growth in spending in domestic programs and changing spending priorities.

The Budget Committee faced two major concerns in preparing its recommendations:

First, the serious economic problems in the Nation, including the lack of real economic growth for a period of more than 4 years, high unemployment and low utilization of plant and equipment and poor trade balances. While there are now encouraging signs that the economy has at last begun the much-needed recovery, a continuation of high real interest rates threatens the continuation of that recovery.

Second, the unprecedented levels of Federal deficits that would exist in the coming years if current Federal policies continued unchanged. The baseline deficits¹ range from \$200.9 billion in FY 1984 to \$267.5 billion in FY 1988. Such deficits would pose a major threat of higher and higher interest rates.

The Committee concluded, after extensive hearings and study of relevant data, that these two concerns are closely interrelated. Specifically, the recent recession has caused the Federal Government's expenses to rise and its revenues to drop, thereby helping produce large Federal deficits. In addition, the Federal Government is faced with large "structural deficits" such that even with high employment the gap between spending and revenues would rise above \$200 billion—4 to 5 percent of GNP. These large deficits exert upward pressure on interest rates, which are still quite high in real terms and which threaten to rise sharply in the coming months unless the Federal deficits now projected can be reduced substantially. High interest rates have severe economic effects in fields such as agriculture, housing, construction, automobiles, and other

¹ Baseline deficits are calculated by the Congressional Budget Office using economic assumptions approved by the Budget Committee. Baseline calculations assume that all Federal programs and activities will continue under present policies and that purchasing power of program resources will be maintained through inflation adjustments. See chapter 5 for further discussion of the baseline concept.

types of interest-sensitive businesses. Indeed, high interest rates dampen economic activity in all fields, as businesses cannot borrow to expand their operations when the return on investment is extremely small in relation to the cost of capital and consumers borrow less and therefore buy fewer automobiles, houses, appliances, and other goods and services.

During recent years, structural economic problems have become increasingly apparent. For example, smokestack industries, which for so long were the very heartland of U.S. enterprise, have suffered losses in both domestic and international markets. These losses resulted from a combination of inefficient management, severe competition in foreign trade, and high interest rates which pushed the value of the dollar up relative to foreign currencies. Exports were reduced and imports of foreign goods by Americans increased. Severe dislocations in America's labor markets occurred as growth in high technology and communications oriented industries increased and heavy industrial production slowed. There has also been a decline in research and development which further threatens the competitive edge of American industry and inhibits the implementation of new technologies. The Committee has addressed these concerns both by recommending policies that will lower Federal deficits and lead to lower interest rates and by allowing for increased funding for math and science education, for training displaced workers, and for a 5 percent real growth rate in the Nation's investments in basic scientific research.

The Committee believes strongly that what the American economy needs most is a strong and durable economic recovery. And what most threatens a strong and sustained economic recovery is the prospect of high real interest rates. The Committee believes that high and rising deficits threaten recovery, and it has therefore taken aggressive action to reduce deficits and thereby reduce pressure on interest rates.

THE PROPOSED BUDGET

The plan incorporated in the budget resolution contains major actions to confront the historic deficits which would otherwise occur. The resolution assumes policy actions which would reduce the cumulative projected baseline deficits by about 40 percent in the fiscal year 1984-88 period, including cutting the baseline FY 1988 deficit by more than half.

The plan reflected in the budget resolution consists of the following elements:

(1) *Spending Restraint.*—The resolution encompasses spending reductions totaling \$146.5 billion below the baseline projections during fiscal years 1984 through 1988.

(2) *Increased Revenues.*—The Committee recommends that, along with the recommended spending reductions, Congress enact changes in law to achieve revenue increases of \$266.8 billion over the next 5 years, in addition to the \$48.6 billion in revenue increases already achieved by the new social security legislation.

These revenue increases are a necessary part of the overall deficit-reduction plan proposed in this resolution. The Committee's revenue recommendation does not assume any particular revision in the tax laws. The Committee believes that revenues can be raised by a variety of legislative changes.

SOCIAL SECURITY SOLVENCY

In its report last year on the First Budget Resolution for FY 1983, the Committee recognized that the social security system faced bankruptcy. At that time, the Committee recommended actions totaling \$40 billion over the next 3 years to restore social security solvency. The Committee also called last year for the report of the National Commission on Social Security Reform to be submitted earlier than scheduled.

The Committee is pleased to report that this resolution includes the budgetary impact of the social security solvency plan adopted by Congress when H.R. 1900, the Social Security Amendments of 1983, was passed on March 23, 1983 and signed into law as Public Law 98-21 by President Reagan on April 20, 1983. This plan has the following aggregate effects on the revenue, budget authority, outlay, and budget deficit totals in this resolution:

Table 1

BUDGETARY EFFECTS OF PUBLIC LAW 98-21

(In billions of dollars)

	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	6-yr. total
Revenues		5.5	7.3	7.0	9.0	19.8	48.6
Budget authority	26.6	14.4	16.5	16.2	19.8	34.0	127.5
Outlays.....	0.7	-2.7	-3.2	-6.0	-8.2	-9.2	-28.6
Change in budget deficit.....	0.7	-8.2	-10.5	-13.0	-17.3	-29.0	-77.2

The Committee notes that the combined outlay reduction and revenue increases realized through social security solvency legislation averages \$15.4 billion per year during the fiscal year 1983-88 period.

Passage of Public Law 98-21 affects the totals in 6 different budget functions as shown by the following table:

Table 2

SPENDING EFFECTS OF PUBLIC LAW 98-21 BY BUDGET FUNCTIONS

[in billions of dollars]

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Spending:							
Function 550: Health	BA	—(*)	—(*)	—0.1	—0.1	—0.1	—0.1
	0	—(*)	—(*)	—0.1	—0.1	—0.1	—0.1
Function 570: Medical insurance	BA	3.3	1.0	2.0	2.5	3.3	3.8
	0	(*)	0.1	0.1	—2.0	—4.0	—4.5
Function 600: Income security	BA	2.3	0.7	0.4	0.1	0.8	0.9
	0	2.2	0.6	0.7	0.6	0.7	0.7
Function 650: Social security	BA	20.8	12.4	14.0	13.9	16.0	29.7
	0	—1.7	—3.7	—4.1	—4.3	—4.6	—5.0
Function 700: Veterans benefits and services ..	BA	.....	—0.1	—0.1	—0.1	—0.1	—0.1
	0	—(*)	—0.1	—0.1	—0.1	—0.1	—0.1
Function 900: Net interest	BA	0.1	0.2	0.2	—0.2	—0.2	—0.1
	0	0.1	0.2	0.2	—0.2	—0.2	—0.1
Total spending	BA	26.6	14.4	16.5	16.2	19.8	34.0
	0	0.7	—2.7	—3.2	—6.0	—8.2	—9.2

*Less than \$50 million.

NATIONAL DEFENSE

This resolution provides for 9 percent growth in budget authority and 13 percent growth in outlays for national defense. This reflects the Committee's judgment that international conditions, especially the threat posed by the Soviet Union, require a continued strong, steady buildup of our defense capacity.

Despite the Committee's acceptance of the vital need for continued major funding increases to strengthen the Nation's defense capabilities, its recommendations provide for somewhat slower military spending growth than was requested by the President. The Administration's plan would have required increases over the defense spending plan adopted last year, at a time when all other parts of the budget are being subjected to restraint.

The Committee is convinced that without these restraints on the growth of defense funding, it would be impossible to put together an overall budget providing for steadily declining deficits that has a chance of congressional approval.

The Committee notes that, even with the changes it recommends, defense spending will still increase at an average annual real growth rate of 5 percent per year during the next 5 years. This will follow unprecedented peacetime growth in defense spending of 35 percent after inflation during the past 3 years. Defense budget authority will increase by \$23 billion from 1983 to 1984.

Table 3

GROWTH OF DEFENSE SPENDING

[In percent]

	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	Average annual growth
Budget authority:							
Nominal growth.....	12	9	12	12	11	10	11
Real growth.....	7	5	6	6	5	5	5
Outlays:							
Nominal growth.....	14	13	12	11	11	10	11
Real growth.....	10	8	6	5	5	4	6

SPENDING REDUCTIONS

The following table summarizes the changes from the baselines for revenues, outlays, and deficits as a result of the policy changes assumed in the resolution:

Table 4

SUMMARY OF CHANGES FROM BASELINE REFLECTED IN PROPOSED BUDGET RESOLUTION

[In billions of dollars]

	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	5-year total
Revenues:						
Baseline.....	653.9	717.8	773.5	827.1	882.4	
Enacted legislation and technical re-es- timates.....	1.5	5.7	5.4	6.9	17.4	36.9
Revenue increases.....	30.2	39.1	51.9	65.6	80.0	266.8
Committee recom- mendation.....	685.6	762.6	830.8	899.6	979.8	
Outlays:						
Baseline.....	854.8	928.4	1,000.2	1,073.8	1,149.9	
Defense.....	-0.6	-7.0	-10.0	-1.5	5.6	-13.5
Medicare and medic- aid.....	-0.8	-1.5	-4.2	-7.3	-9.0	-22.8
Social security.....	-3.7	-4.1	-4.3	-4.6	-5.0	-21.7
Other entitlements and mandatory items.....	-1.8	-0.5	-1.6	-0.5	-0.9	-5.3
Non-defense discre- tionary programs.....	3.2	0.6	-3.2	-4.9	-8.5	-12.8
Civilian agency pay raises.....	-1.1	-1.4	-1.8	-2.2	-2.6	-9.1

SUMMARY OF CHANGES FROM BASELINE REFLECTED IN PROPOSED BUDGET RESOLUTION—Continued

(In billions of dollars)

	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	5-year total
Offsetting receipts	-0.5	-0.1	-0.7	-1.3	-2.1	-4.7
Net interest	-0.7	-4.8	-10.4	-16.8	-24.1	-56.8
Total outlay sav- ings	-5.9	-18.8	-36.2	-39.1	-46.5	-146.5
Committee recom- mendation	848.9	909.6	964.0	1,034.7	1,103.4	
Deficit:						
Baseline	200.9	210.5	226.7	246.7	267.5	
Proposed changes	-37.6	-63.6	-93.5	-111.6	-143.9	-450.2
Committee recom- mendation	163.3	147.0	133.2	135.1	123.6	

Table 5 shows the proposed allocation among budget functions of budget authority and outlays included in the proposed budget resolution:

Table 5

FIRST BUDGET RESOLUTION FOR FY 1984 AS REPORTED BY THE SENATE BUDGET COMMITTEE

(in billions of dollars)

Function	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
050: National Defense.....	244.1	267.0	299.5	334.8	372.1	410.4
	0	241.5	270.7	300.0	331.5	363.6
150: International Affairs.....	24.9	18.2	16.5	15.9	16.9	17.7
	0	11.5	12.7	12.8	12.7	12.4
250: General Science, Space, and Technology.....	7.9	8.5	8.5	8.4	8.4	8.5
	0	7.7	8.2	8.4	8.4	8.4
270: Energy.....	4.0	3.9	3.6	3.2	3.1	3.5
	0	4.6	4.1	2.7	2.9	3.0
300: Natural Resources and Environment.....	12.5	12.0	12.2	12.5	12.8	13.0
	0	12.8	12.5	12.2	12.1	12.3
350: Agriculture.....	24.2	11.6	14.0	13.2	13.7	14.0
	0	24.0	11.4	13.1	13.6	13.9
370: Commerce and Housing Credit.....	5.2	5.9	6.5	6.5	8.0	8.3
	0	2.7	1.8	-0.3	1.2	1.7
400: Transportation.....	26.8	27.7	28.4	29.2	29.8	30.3
	0	22.1	25.9	27.8	28.6	28.6
450: Community and Regional Development.....	8.3	6.6	7.1	7.1	7.1	7.1
	0	7.9	8.1	7.6	7.5	7.4
500: Education, Training, Employment, and Social Services.....	28.0	30.8	27.5	27.5	27.4	27.4
	0	26.8	27.0	27.4	27.3	27.5

FIRST BUDGET RESOLUTION FOR FY 1984 AS REPORTED BY THE SENATE BUDGET COMMITTEE—Continued

[In billions of dollars]

Function	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
550: Health.....	25.1	31.8	35.0	37.8	40.9	44.3
	0	29.6	31.8	34.5	37.2	40.1
570: Medical Insurance.....	46.1	61.4	69.4	79.1	87.4	95.2
	0	53.1	60.3	68.3	75.6	85.7
600: Income Security.....	121.7	126.0	127.5	131.4	135.5	140.1
	0	110.2	104.1	105.5	108.6	112.1
650: Social Security.....	184.1	174.9	194.7	211.0	226.7	256.7
	0	167.6	177.1	188.4	200.8	213.7
700: Veterans Benefits and Services.....	25.2	25.7	26.8	27.3	27.8	28.2
	0	24.5	25.7	26.4	26.7	27.2
750: Administration of Justice.....	5.2	6.0	5.8	5.9	6.7	6.5
	0	5.1	6.0	5.9	5.8	6.4
800: General Government.....	5.6	5.7	6.0	6.2	6.3	6.3
	0	5.7	5.7	5.8	5.9	6.0
850: General Purpose Fiscal Assistance.....	6.4	7.1	7.2	7.5	7.9	8.2
	0	6.4	7.0	7.1	7.5	8.1
900: Net Interest.....	87.6	95.3	102.1	104.3	106.8	107.6
	0	87.6	95.3	102.1	104.3	106.8
920: Allowances.....	0.8	0.6	1.9	3.2	4.6	6.0
	0	0.9	2.0	3.4	4.9	6.4
950: Undistributed Offsetting Receipts.....	-18.0	-17.9	-18.7	-23.5	-22.0	-22.2
	0	-18.0	-17.9	-23.5	-22.0	-22.2

Total spending.....	BA	875.7	908.8	981.5	1,048.5	1,127.9	1,217.1
	0	807.1	848.9	909.6	964.0	1,034.7	1,103.4
Revenues:							
Social security.....		148.5	166.5	187.7	204.4	219.5	246.5
Medical insurance.....		35.9	39.7	44.2	50.9	55.6	60.0
Other receipts.....		418.7	479.4	530.7	575.5	624.5	673.3
Total revenues.....		603.1	685.6	762.6	830.8	899.6	979.8
Deficit.....		204.0	163.3	147.0	133.2	135.1	123.6
Public debt.....		1,383.9	1,591.1	1,788.8	1,979.6	2,177.1	2,375.7

BUDGETARY TREATMENT OF SOCIAL SECURITY AND MEDICAL INSURANCE

Tables 2 and 5 reflect the decision Congress made in enacting Public Law 98-21, the Social Security Amendments of 1983, that the disbursements and receipts of social security and medical insurance trust funds should be presented separately in the congressional budget, beginning with the budget for FY 1984. Consistent with section 347 of Public Law 98-21, the Committee has included in this resolution a new budget function for social security, identified as function 650, and another new function for medical insurance, function 570. The Committee has further implemented P.L. 98-21 by separately identifying in this resolution the estimated receipts of the social security and medical insurance trust funds.

REVISION OF SECOND BUDGET RESOLUTION FOR FY 1983

The resolution revises the aggregate and functional totals provided in the Second Budget Resolution for FY 1983. The Second Budget Resolution for FY 1983 took effect automatically on October 1, 1982, as a result of a provision in the First Budget Resolution for FY 1983. Section 7 of that resolution (S. Con. Res. 92) provided that if Congress had not by October 1 explicitly adopted a Second Budget Resolution for FY 1983, the first budget resolution would be converted automatically to a second resolution. Implementation of the automatic second resolution provision was in fact the course followed by Congress in the fall of 1982.

Many changes have occurred in the budget outlook since the First Resolution for FY 1983 was adopted. This resolution updates the revenue and spending estimates and provides for the spending levels which the Committee believes necessary in FY 1983. Adoption of the conference report on the First Concurrent Resolution for FY 1984 will supersede and replace S. Con. Res. 92.

RECONCILIATION

A significant portion of the program to reduce the Federal deficit will be implemented through the reconciliation process. The resolution contains reconciliation instructions directing committees of Congress to take actions that will change existing laws in order to reduce outlays and increase revenues. Reconciliation is a key procedure for implementing the policies proposed by this resolution because it allows Congress to deal expeditiously with a wide range of spending reductions and revenue changes as a package, instead of addressing such restraint proposals on a piecemeal basis.

The Committee believes action to produce revenue increases and outlay reductions through reconciliation is absolutely essential in order to lend credibility to the fiscal plan that is incorporated in the resolution. Without reconciliation, the Committee believes that the budget targets would not be achieved. The Committee is equally concerned that the budget plan would not have credibility in the financial markets and with the general public. If this were the case, expectations about the future of the economy would be less

positive and the benefits of the budget plan would be delayed or negated.

Reconciliation is well established as an effective means to reduce Federal deficits. The authority to include reconciliation instructions is provided by Title III of the Congressional Budget Act of 1974. The first budget resolutions for fiscal years 1981, 1982, and 1983 each included reconciliation instructions. Earlier the Senate included reconciliation in its version of the Second Concurrent Resolution for FY 1980, but the House of Representatives did not agree.

Reconciliation permits Congress to instruct its committees to revise existing laws in order to achieve spending reductions or revenue increases of the amounts specified in reconciliation instructions contained in a budget resolution. The process allows the individual committees to exercise their full judgment on the laws to be changed and on the changes that should occur. Reconciliation recognizes existing committee jurisdiction over programs while enabling the Congress to consider rationally its fiscal policies.

CONTENTS OF THE RECONCILIATION INSTRUCTION

The resolution includes instructions addressed to five Senate committees and their House counterparts to recommend changes in laws within their jurisdiction to reduce spending. The major program reductions which the Budget Committee assumes will be made in implementing these instructions are shown by table 6. These assumptions are shown for information purposes only. The committees which receive the instructions will be required to achieve spending reductions totaling the amounts specified, but they may choose to achieve the savings in ways different than assumed by the Budget Committee.

As is indicated in the table below, the assumed legislative recommendation by the Governmental Affairs Committee on cost-of-living adjustments (COLAs) will result in savings in programs outside of the Governmental Affairs Committee's jurisdiction. These savings will occur because existing laws link COLAs in military and public health service retirement, coast guard retirement, and foreign service retirement to the COLAs in civil service retirement. Therefore, it is not necessary for the Senate Committees on Armed Services, Commerce, Science, and Transportation, and Foreign Relations to report legislation in order to achieve the assumed savings.

Table 6

RECONCILIATION SPENDING SUMMARY

[in millions of dollars]

	FY 1984		FY 1985		FY 1986	
	BA	0	BA	0	BA	0
Committees/Programs in which savings are assumed						
(1) Agriculture: Milk price supports	-1,243	-1,243	-1,332	-1,332	-1,327	-1,327
(2) Finance:						
Medicare		-809		-995		-1,572
Medicaid		-7		-543		-407
Child support enforcement		-40		-116		-139
Unemployment compensation				-370		-366
Subtotal Finance		-856		-2,024		2,494
(3) Governmental Affairs:						
COLA-Civil Service Retirement		-273		-462		-841
COLA-Military and Public Health Service Retirement (Armed Services) ¹	-253	-253	-360	-360	-621	-621
COLA-Coast Guard Retirement (Commerce) ¹	-5	-5	-8	-8	-15	-15
COLA-Foreign Service Retirement (Foreign Relations) ¹		-3		-4		-9
Subtotal Governmental Affairs	-258	-534	-368	-834	-636	-1,486
(4) Small Business: SBA disaster loans						
Veterans Affairs: COLA-Veterans compensation	-139	-287	-555	-466	-544	-443
Total	-202	-201	-117	-115	-118	-118
Total	-1,042	-3,121	-2,372	-4,771	-2,625	-5,858

¹ The spending reductions indicated will be achieved automatically in these programs if the COLA for civil service retirement is amended as assumed.

The reconciliation spending totals, broken down by budget functions in accordance with the Budget Committee's assumptions about how the savings will be achieved, are shown in table 7.

Table 7

RECONCILIATION SPENDING ASSUMPTIONS BY FUNCTION

[In millions of dollars]

Function		FY 1984	FY 1985	FY 1986
050: National Defense	BA	-252	-358	-617
	O	-252	-358	-617
350: Agriculture	BA	-1,243	-1,332	-1,327
	O	-1,243	-1,332	-1,327
400: Transportation	BA	-5	-8	-15
	O	-5	-8	-15
450: Community and Regional Development	BA	-139	-555	-544
	O	-287	-466	-443
550: Health	BA	-1	-2	-4
	O	-8	-545	-411
570: Medical Insurance	BA			
	O	-809	-995	-1,572
600: Income Security	BA			
	O	-316	-952	-1,355
700: Veterans Benefits and Services	BA	-202	-117	-118
	O	-201	-115	-118
Total	BA	-1,842	-2,372	-2,625
	O	-3,121	-4,771	-5,858

The second category of reconciliation instruction is directed to the Senate Committee on Finance and the House Committee on Ways and Means. These committees are instructed to report recommendations in order to increase revenues by the amounts specified, as shown in table 8.

Table 8

RECONCILIATION ASSUMPTIONS FOR REVENUES

[In billions of dollars]

	FY 1984	FY 1985	FY 1986
Revenue increases	30.2	39.1	51.9

Both the spending recommendations and the revenue recommendations are to be reported by the committees of jurisdiction to the

budget committees of both Houses by June 6, 1983. The Budget Committees will package these recommendations without substantive change and report them to their respective Houses as a single omnibus reconciliation bill.

The Committee is fully aware that the reconciliation actions it proposes may create some problems for the committees having jurisdiction over the programs in which the savings will be achieved as well as for the taxwriting committees. Nevertheless, this Committee believes that the spending reductions and revenue increases are necessary and achievable. The Committee will assist other committees in whatever way it can to carry out the reconciliation instructions, if they are approved by the full Congress.

ECONOMIC ASSUMPTIONS

The following economic assumptions were used by the Committee in formulating this resolution. These assumptions are the same as the Congressional Budget Office economic forecast prepared earlier this year.

ECONOMIC ASSUMPTIONS

(Calendar years)

	1983	1984	1985	1986
Percent growth over prior year:				
Real GNP	2.1	4.7	4.1	3.7
GNP deflator	4.6	4.7	4.7	4.3
CPI-U	4.5	5.0	4.7	4.1
Average rate, calendar year:				
Unemployment	10.6	9.8	9.0	8.4
91-day Treasury bills	6.8	7.4	7.2	6.6

PUBLIC DEBT

This budget resolution provides for increases in the public debt subject to limit of \$93.7 billion, \$207.2 billion, \$197.7 billion, and \$190.8 billion in FY 1983, FY 1984, FY 1985, and FY 1986, respectively. The increases in the Federal debt held by the public (which is approximately equal to the change in public debt levels less the effects of changes in trust fund balances) are \$180.9 billion, \$162.5 billion, and \$147.8 billion in FY 1984, FY 1985, and FY 1986, respectively. The increase in Federal debt held by the public is the appropriate measure of the effect of changes in the public debt on credit markets.

CREDIT BUDGET

This resolution continues to reflect the Committee's concern about the credit activities of the Federal Government. It contains a number of provisions dealing with credit activities including recommended totals by function for new direct loan obligations, and new

loan guarantee commitments, language calling for allocation of credit totals among committees and subcommittees, and sense-of-the-Congress language calling for limitations on credit activity and consideration of legislation to institute improved budgetary treatment of Federal Financing Bank lending. These credit provisions are consistent with the recommendations of the Temporary Subcommittee on Federal Credit which submitted its report to the full Budget Committee in December 1982.

CONCLUSION

The Committee found the development of the resolution an extremely difficult but important challenge. The Committee delayed its work for nearly 3 weeks at one point at the request of President Reagan so that the administration could consider possible changes in its national defense budget request.

The Committee then encountered a further delay in completing its work when a deadlock developed on the issue of revenue increases to be provided for in the budget resolution. The Committee regrets that it missed by about a week the April 15 target specified by the Budget Act for reporting the first budget resolution; nevertheless, the Committee hopes that the May 15 deadline for congressional adoption of the first budget resolution can be met.

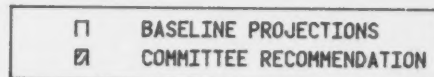
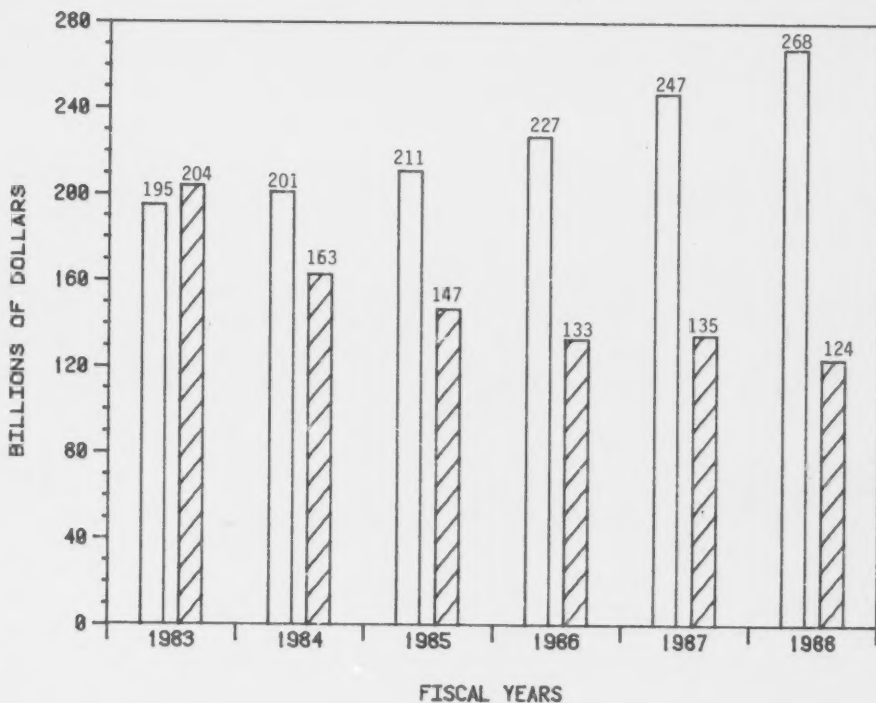
The Committee is gratified that it has been able to produce a budget resolution which received strong bipartisan support inside the Committee. The Committee believes that this resolution will find broad support in the Senate and is hopeful that the essential elements of it can be accepted by the House of Representatives in the House-Senate conference. Without the types of policy actions reflected in this resolution, the Committee is convinced that economic recovery will be cut short, that interest rates will again rise, and that the restoration of confidence in the future strength of our economy will be seriously hindered.

Chapter II. THE BUDGET PROBLEM: LARGE AND GROWING DEFICITS

The Committee's recommendations provide for major reductions in the large deficits now projected for the coming years. Chart 1 shows the deficits that would be likely without policy changes, compared with the lower deficits that the Committee's recommendations will produce.

CHART 1

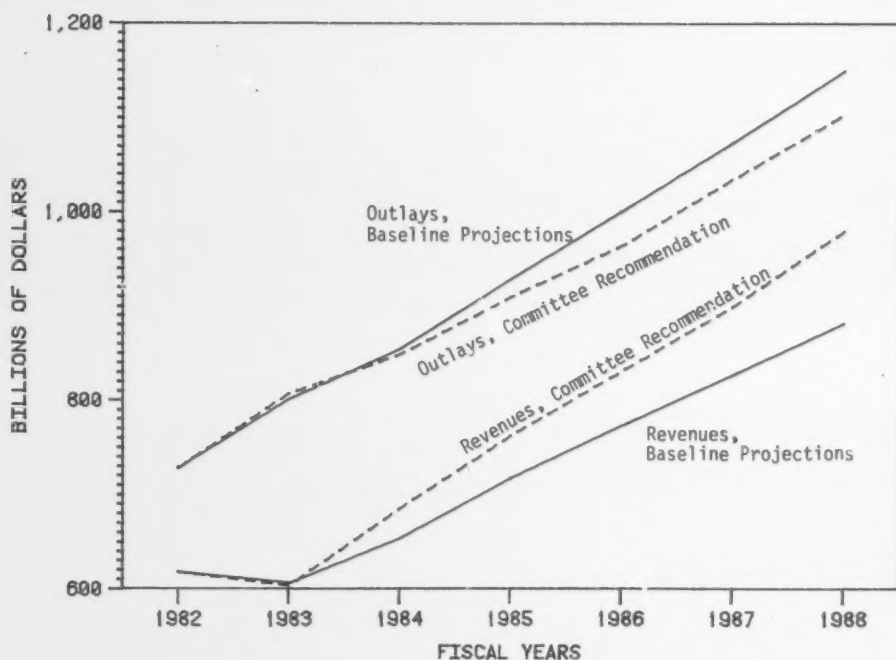
BUDGET DEFICITS, 1983-88



It should be noted that the baseline budget deficits shown in chart 1 are based on the assumption that the economy will continue to recover and will grow steadily in fiscal years 1983 through 1988.

A growing gap between revenues and expenditures is projected for the 1980's, in the absence of actions of the magnitude recommended by the Committee. Chart 2 shows this gap and the effect of the policy changes recommended in the resolution.

CHART 2
REVENUES VS.
EXPENDITURES

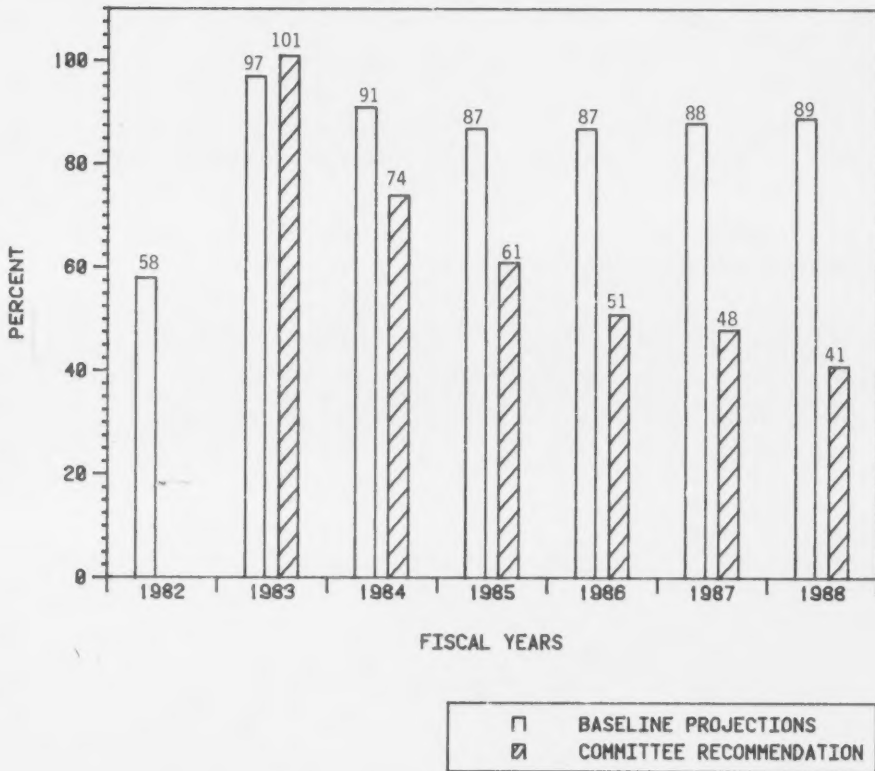


Outlays in the baseline increase from \$800.9 billion in FY 1983 to \$1,149.9 billion in FY 1988. The gap between spending and revenues is projected to get wider every year without swift and substantial action. If the policy changes proposed in the budget resolution are enacted, however, this gap will narrow significantly, as the chart shows. In fact, the policies recommended in this resolution will close the gap more than half way in FY 1988.

If no action is taken to reduce projected deficits, a robust economic recovery is unlikely. Economic expansion to a great extent depends on the availability and affordability of credit for business investment, housing mortgages, automobiles and other consumer needs. The projected baseline deficits would make credit less available to the private sector and would likely keep interest rates at historically high levels. Chart 3 shows that the Committee's recom-

mentations would free for private investment substantial amounts of funds that would otherwise be used to finance Federal deficits.

CHART 3
DEFICITS IN RELATION TO NET PRIVATE SAVINGS
(DEFICITS AS A PERCENT OF NET PRIVATE SAVINGS)



The years between 1955 and 1970 witnessed some of the country's best economic growth. During those years, Federal deficits and other Federal credit requirements absorbed 20 percent or less of the funds available in credit markets. In the late 1970's and particularly in the early 1980's, Federal deficits and other Federal credit activity have grown much faster than the savings necessary to finance them. As shown in chart 3, between 1983 and 1988 Federal deficits are projected to absorb an average of 90 percent of net private savings under the baseline deficit projections. The Committee's policy recommendations will reduce Federal deficits to an average of 63 percent of net private savings during this period and to 41 percent in FY 1988.

Clearly, continued large deficits would affect the amount of credit available to other borrowers, such as State and local govern-

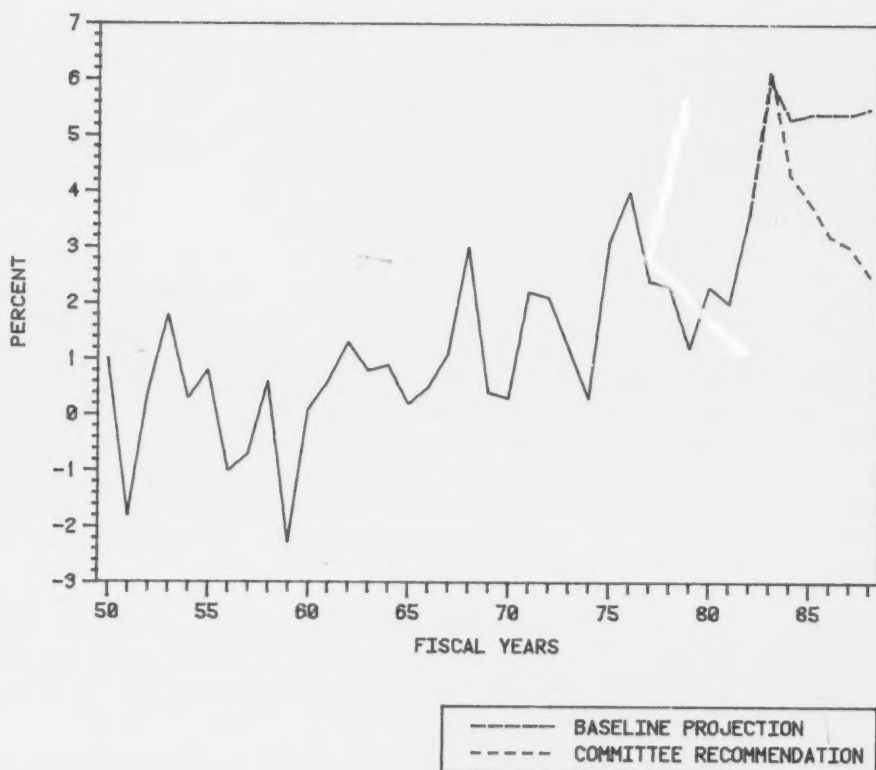
ments, businesses, and individuals, and would tend to raise interest rates when the economic recovery moves into full swing. High interest rates could pinch off needed economic growth as well as keep the Federal Government's own interest costs high. If no action were taken on deficits this year, it is projected that net interest expenditures would skyrocket from \$23.2 billion in 1975 to \$131.7 billion in 1988. The portion of the Federal budget needed to cover these large expenditures would jump from 7 percent to over 11 percent. Under the Committee's recommendations, Federal interest costs in 1988 are projected to be \$107.6 billion—9.8 percent of the total Federal budget.

The deficit reduction measures incorporated in the Committee recommendation will substantially decrease Federal intrusion in the capital markets.

The unprecedented nature of the baseline deficits is also evident in chart 4, which shows Federal deficits as a percent of GNP.

CHART 4

FEDERAL DEFICITS AS A PERCENT OF GNP
1950-88



With the policy changes recommended by the Committee and the assumption of steady economic growth, deficits in the 1980's are projected to be substantially smaller in relation to of the gross national product as shown in the above chart. By 1988, the deficit is

projected to equal 2.6 percent of GNP, somewhat lower than to the deficit/GNP ratios in 1968 and 1976.

If no policy changes were made, on the other hand, the deficit would reach levels totally unprecedented in the post-World War II period, as shown by chart 4.

THE PORTIONS OF THE BUDGET MOST TO BLAME

The large budget deficits experienced recently and projected for the coming years result from many factors. One key factor is that Congress reduced taxes in 1981 by far more than it has been able to reduce spending growth. The challenge of closing the deficit gap must be addressed on both the revenue and the spending sides of the budget.

In the last 20 years, all portions of the spending side of the budget have grown enormously. But it is important to note that certain parts of the budget are responsible for the largest shares of recent spending growth. Outlays for non-defense entitlements, including social security and medicare, will grow from \$184 billion in FY 1977 to a level of \$502 billion under the Committee's projections for FY 1988. Defense outlays were \$98 billion in FY 1977 and will grow to \$364 billion in FY 1988 under the budget recommended by the Committee. Net interest outlays were \$30 billion in FY 1977 and will be \$108 billion in FY 1988 under the Committee's recommended policies.

While outlays for discretionary, non-defense programs continue to grow in dollar terms, this category of spending will grow more slowly than the other categories, and will constitute only 16 percent of the total budget in FY 1988.

The recommendations of the Committee substantially modify recent trends and provide for restraining entitlements so that they decline from 12.0 percent of GNP in 1983 to 10.4 percent in 1988. Similarly, non-defense discretionary programs decline from 4.6 to 3.6 percent of GNP over the same years. Since each 1 percent of GNP is nearly \$50 billion by FY 1988, this decline of 2.6 percent of GNP in the share of the economy going to domestic programs is quite substantial, amounting to almost \$125 billion in 1988 outlays.

The following table shows the shares of GNP of major components of the Federal budget during the FY 1983-88 period as proposed in this budget resolution.

BUDGET COMPONENTS AS A SHARE OF GNP

	(In percent)						
	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	Change FY 1983-88
National defense:							
Outlays	6.7	6.9	7.1	7.2	7.4	7.6	+0.9
Nondefense discretionary:							
Outlays	4.6	4.5	4.2	3.9	3.8	3.6	-1.0

BUDGET COMPONENTS AS A SHARE OF GNP—Continued

[In percent]

	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	Change FY 1983-88
Entitlements:							
Outlays	12.0	11.0	10.7	10.5	10.4	10.4	-1.6
Revenues	18.9	19.6	20.0	20.0	20.2	20.4	+1.5

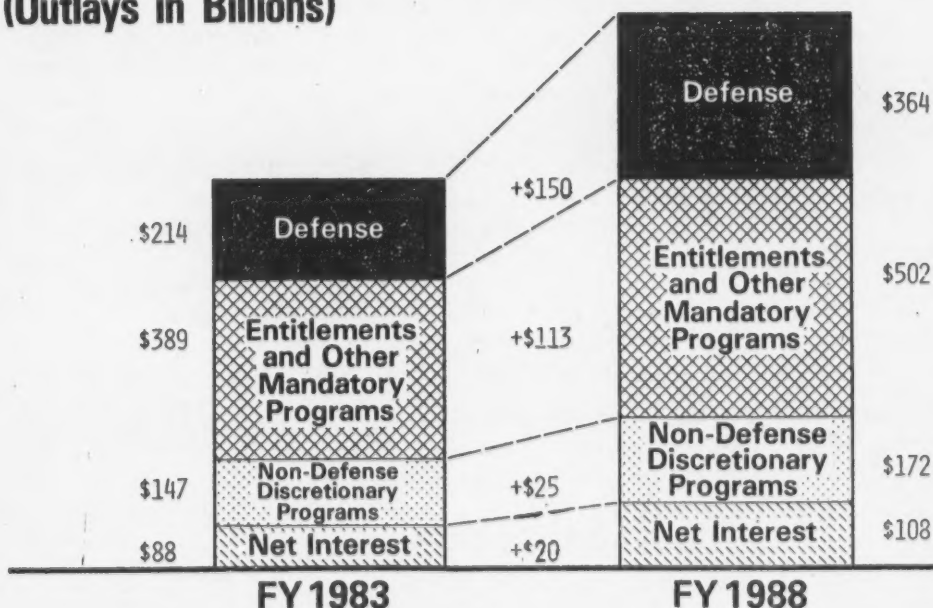
Entitlements, net interest, and, recently, national defense are the parts of the budget in which there has been the fastest spending growth. If the recommendations of the Committee are adopted and the economic projections prove accurate, Federal spending will grow by 36.7 percent between FY 1983 and FY 1988, compared to baseline growth of 43.6 percent.

Chart 5 shows the projected growth from FY 1983 to FY 1988 in various components of the Federal budget under the policies recommended by the Committee.

CHART 5

Major Components of the Budget

(Outlays in Billions)



At the same time that Federal spending has grown to where FY 1983 outlays equal 25.3 percent of the gross national product, recent major reductions in the tax burden have reduced Federal revenues to only 18.9 percent of GNP in FY 1983 from a level of 20.4 percent in FY 1982. This structural gap has left high employ-

ment revenues between 4 and 5 percent of GNP below Federal outlays. President Reagan recognized this in his FY 1984 budget, and proposed revenue measures to raise the tax burden back to 20.6 percent of GNP by 1988. The provisions of this resolution stay within that guideline by providing for a restrained tax burden of 20.4 percent of GNP. However, the enactment of tax changes earlier than recommended by the President would prevent the deficit from growing in 1985 and 1986. The table below shows that the recently enacted revenue reductions greatly exceeded the reductions in Federal spending.

INCREASES IN THE DEFICIT ATTRIBUTABLE TO CONGRESSIONAL POLICY ACTION

[In billions of dollars]

	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Tax reduction.....	38	68	93	121	154	178	207
Defense spending increases.....	1	15	27	47	65	65	65
Nondefense spending cuts.....	-42	-47	-56	-59	-61	-61	-61
Net change in deficit due to policy action....	-3	36	64	109	158	182	211

Source: CBO baseline budget projections for fiscal years 1984 to 1988.

CONTINUED SPENDING RESTRAINT RECOMMENDED

The spending restraint provided by this resolution will come on top of substantial policy changes in the past 2 years and the actions earlier this year on the social security bill. These actions have already reduced Federal non-defense spending by more than \$60 billion per year below where it otherwise would have been.

The further spending restraint the Committee has endorsed include the following highlights:

(1) Holds non-defense, non-interest outlay growth in FY 1984 to a total of only \$6.9 billion over FY 1983. This is growth in nominal dollar terms of only 1.4 percent. It is a decline of 3.1 percent in real terms compared to the FY 1983 outlay level now expected. In fact, the budget targets included in the resolution would provide negative real growth in non-defense, non-interest outlays for fiscal years 1984-86 and real growth of less than 2.5 percent per year in FY 1987 and FY 1988.

(2) Achieves five-year entitlement savings of \$49.8 billion including savings already achieved through the social security bill. The entitlement restraint includes:

(a) Historic steps to limit the growth of health care for a total savings of \$22.8 billion in medicare and medicaid over the five year period.

(b) Provides for moving all cost-of-living adjustments (COLAs) for Federal retirement and disability programs to January 1st—with substantial savings beyond those

achieved by the COLA changes included in the social security legislation.

(c) Provides for additional savings to be achieved in agriculture price supports, unemployment compensation and child support enforcement.

(3) Restrains discretionary, non-defense programs so as to produce savings of \$12.8 billion over the five-year budget period.

(4) Hold outlays for national defense \$88.7 billion below those requested by the President and \$13.5 billion below the CBO baseline during the next five years.

(5) In addition, the Committee's recommendation will achieve savings in interest costs totaling \$56.8 billion during the FY 1984-88 period.

Chapter III. ECONOMICS

COMMITTEE RECOMMENDATION

The Committee recommends large and permanent reductions in Federal deficits in FY 1984 and beyond. The Committee's recommendation responds to the concern that a durable, noninflationary economic recovery is not possible in the presence of large and growing structural Federal budget deficits. As the economy recovers, large Federal budget deficits will compete directly with private demands for credit, thereby driving up interest rates. On the other hand, if monetary policy aims to hold down the level of interest rates, money growth will be more rapid than is consistent with long-term price stability. In either case, large Federal budget deficits must be reduced to permit economic growth without inflation particularly in future years as the economy expands.

Indeed, the present level of interest rates is high when compared to the relatively low inflation rate projected for this year. Although interest rates have declined substantially from last year, inflation also has slowed and "real" interest rates, particularly for many consumer items and long-term interest rates in general, are actually little changed from last year. This is particularly troublesome in an economy that is in the early stages of a relatively weak recovery, as is now the case.

For this reason, it is the Committee's hope that the substantial actions to reduce Federal budget deficits recommended in this budget resolution will signal both to the Federal Reserve and to financial markets that the structural deficit problem has been reduced and that future Federal financing needs will be consistent with low interest rates and low inflation. In this way, the longer term actions by the Committee to reduce deficits should reduce the inflation premiums in current interest rates and bring interest rates into better balance with low inflation. Lower interest rates will promote growth particularly in the credit sensitive sectors, that are so important to economic recovery. To the extent that interest rates do not come down, it is expected that monetary policy will be sensitive to the risks to near-term growth that may result from large reductions in deficits.

In fact, it is the sense of several of the members of the Committee that congressional actions to reduce budget deficits make it necessary for the Federal Reserve to promote actively an economic recovery that is consistent with other past postwar economic recoveries. Specific language addressing this issue is presented and discussed under the section titled Monetary Policy that appears later

in this chapter. The following table summarizes the Committee's recommendations.

Table 1

BUDGET PROJECTIONS

(In billions of dollars)

	Actual FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Outlays.....	728.4	807.1	848.9	909.6	964.0	1,034.7	1,103.4
Revenues.....	617.8	603.1	685.6	762.6	830.8	899.6	979.8
Surplus (+) or deficit (-).....	110.6	204.0	163.3	147.0	133.2	135.1	123.6
Public debt.....	1,142.9	1,383.9	1,591.1	1,788.8	1,979.6	2,177.1	2,375.7
Tax change from current law.....	-0.1	+30.2	+39.1	+51.9	+65.6	+80.0	
Outlays as a percent of GNP.....	24.0	25.3	24.3	23.8	23.3	23.2	23.0
Revenues as a percent of GNP.....	20.4	18.9	19.6	20.0	20.0	20.2	20.4
Growth in outlays (percent).....	10.8	10.8	5.1	7.1	6.0	7.3	6.6
Adjusted for inflation.....	3.5	6.0	0.4	2.3	1.5	3.2	2.7
Growth in revenues (percent).....	3.1	-2.4	13.7	11.2	8.9	8.3	8.9
Adjusted for inflation.....	-3.7	-6.6	8.6	6.2	4.4	4.1	4.9
Growth in public debt (percent).....	14.4	21.1	15.0	12.4	10.7	10.0	9.1
GNP.....	3,033.0	3,196.8	3,498.7	3,821.5	4,142.2	4,459.0	4,791.7

ECONOMIC ASSUMPTIONS IN THE BUDGET RESOLUTION

The economic assumptions that are the basis of the spending and revenue estimates in the recommended budget resolution for FY 1984 are shown below. These economic assumptions are the same as the baseline assumptions presented in the CBO annual report. They are also the same as contained in the House-passed budget resolution.

The economic assumptions in the Committee's recommendation reflect the widely held view that the economic recovery which is now underway will be moderate by historical standards and will be accompanied by low and moderating inflation. Unemployment remains quite high throughout the budget horizon. Inflation-adjusted interest rates also remain high for the 5 years, in large part the result of large and growing Federal borrowing requirements.

Table 2
ECONOMIC ASSUMPTIONS

(Calendar years)

	Actual 1982 ¹	1983	1984	1985	1986	1987	1988
GNP (\$ billions).....	3,057.5	3,265.6	3,759.5	3,903.2	4,220.7	4,540.4	4,878.2
Percent change, annual.....	4.1	6.8	9.6	9.0	8.1	7.6	7.4
Real GNP:							
Percent change, annual.....	-1.8	2.1	4.7	4.1	3.7	3.5	3.5
GNP deflator:							
Percent change, annual.....	6.0	4.6	4.7	4.7	4.3	3.9	3.8
CPI:							
Percent change, annual.....	6.1	4.5	5.0	4.7	4.1	3.9	3.7
Unemployment rate, ² annual average.....	9.7	10.6	9.8	9.0	8.4	8.0	7.5
3-month T-bill rate, annual average.....	10.7	6.8	7.4	7.2	6.6	6.1	5.9

¹ Does not include fourth quarter revisions.

² All civilian workers.

Table 3 compares the current-policy spending and revenue estimates based on these economic assumptions to the budget reductions and budget deficits contained in the Committee's recommendation. This table shows that, without the substantial congressional action recommended in this budget resolution, projected unified budget deficits would have risen from \$195 billion in FY 1983 to \$268 billion in FY 1988. If off-budget spending were included, the total Federal current policy deficit, which represents net new Treasury borrowing from the public, would have risen from \$212 billion in FY 1984 to \$284 billion in 1988.

The effect of the Committee's recommendation is to reduce the FY 1984 budget deficit by \$37.6 billion and to reduce future deficits by \$450.2 billion for the 5-year period. The FY 1984 budget deficit in the Committee's recommendation is \$163.3 billion, declining to \$123.4 billion by FY 1988.

Table 3
COMPARISON OF COMMITTEE RECOMMENDATION TO CURRENT POLICY ESTIMATES
[Fiscal years—in billions of dollars]

	Actual 1982	1983	1984	1985	1986	1987	1988	Total 1984-88
Current policy:								
Revenues								
Outlays	617.8	606.3	653.9	717.8	773.5	827.1	882.4	
Unified budget deficit	728.4	800.9	854.8	928.4	1,000.2	1,073.8	1,149.9	
Off-budget deficit	110.6	194.6	200.9	210.5	226.7	246.7	267.5	
Total Federal deficit	17.3	17.6	17.6	15.5	14.6	17.2	16.0	
Committee recommended levels:	127.9	212.2	218.5	226.0	241.3	263.9	283.5	
Revenues								
Outlays								
Unified budget deficit	603.1	685.6	762.6	830.8	899.6	979.8		
Off-budget deficit	807.1	848.9	909.6	964.0	1,034.7	1,103.4		
Total Federal deficit	204.0	163.3	147.0	133.2	135.1	123.6		
	17.6	17.6	15.5	14.6	17.2	16.0		
	221.6	180.9	162.5	147.8	152.3	139.6		
Committee recommended changes:								
Revenues ¹								
Outlays								
Unified budget deficit	-0.1	+30.2	+39.1	+51.9	+65.6	+80.0	+266.8	
Off-budget deficit	+6.2	-5.9	-18.8	-36.2	-39.1	-46.5	-146.5	
Total Federal deficit	+9.4	-37.6	-63.5	-93.5	-111.6	-144.1	-450.2	
	+9.4	-37.6	-63.5	-93.5	-111.6	-144.1	-450.2	

¹ Committee's recommended revenue changes do not add directly to the baseline due to the effect of enacted legislation and technical reestimates which reduce revenues by \$3.1 billion in FY 1983 and raise revenues by \$1.5 billion in FY 1984, \$5.7 billion in FY 1985, \$5.4 billion in FY 1986, \$6.9 billion in FY 1987, and \$17.4 billion in FY 1988.

IMPORTANCE OF ECONOMIC POLICY

The strength and durability of the recovery, particularly over the long term, depends on economic policy. Monetary policy and Federal budget policy go hand in hand. The Federal Reserve's long-term inflation goals are fundamentally incompatible with large structural budget deficits. To the extent that the Congress fails to adopt policies that reduce Federal budget deficits in a permanent and credible way, the Fed will necessarily be more cautious about money growth as it attempts to avoid fueling the expectation (or the reality) of future inflation. Moreover, large future structural deficits, in and of themselves, create the expectation of future inflation which adds an inflation premium to current interest rates even though inflation now is very low. In addition, large structural deficits will compete with private credit demand, when the economy fully recovers, and high interest rates will choke off private investment and bloat the Federal budget. Vigorous economic growth is simply incompatible with high real interest rates, and large structural deficits will tend to keep real interest rates high.

In a world free from business cycles, both monetary and fiscal policies could be concerned entirely with long-term objectives such as promoting a non-inflationary environment in which investment and productivity gains lead to a growing standard of living and full employment of labor and capital. These kinds of objectives are often called structural goals.

When cycles occur, temporary stabilization policies may conflict with longer run structural goals. Cyclical policies often attempt to reduce unemployment or to moderate inflation in order to return the economy to a stable rate of economic growth. Even though policies may be successful in the near term, they sometimes create higher than expected unemployment or inflation in the future.

The Congress is faced with setting fiscal policy in the early stages of an economic recovery. Although the strong focus of both fiscal and monetary policies is on long-term structural goals, cyclical considerations are also important. In setting economic policy, it is necessary to balance both the structural and cyclical considerations. Joblessness and under-utilized plant capacity are the high costs of inaction to stabilize the economy during the economic cycles.

FISCAL POLICY AND STRUCTURAL GOALS

When the economy is in recession, revenues fall and outlays rise. This "cyclical" deficit reflects the automatic stabilizing function of the budget. Alternatively, deficits can arise because spending commitments exceed the resources available from taxes, even in good economic times. This is the "structural" deficit. It is a "policy" or "program" deficit.

In a high employment economy, structural deficits are a very inefficient way of financing public spending. Large and growing structural deficits absorb private saving that is necessary for new private investment in business plant and equipment and for

growth in consumer investment in housing and durable goods. In the process of competing with private investment, large structural deficits will also raise real interest rates when the growth in credit is restrained. In fact, large and growing structural deficits are simply incompatible with a noninflationary money policy because as real interest rates rise, real interest costs to the Federal Government grow rapidly, eventually causing the budget deficit to grow out of control. At some point, the Federal Reserve must step in and purchase large amounts of government debt. This is a form of money financing and is inflationary.

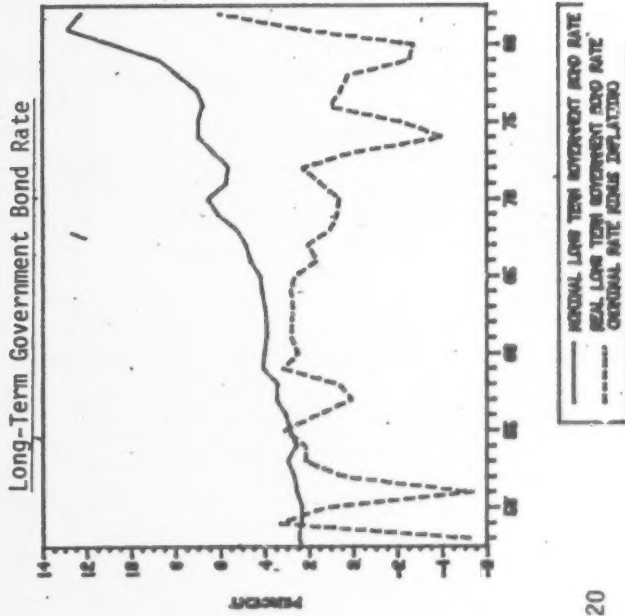
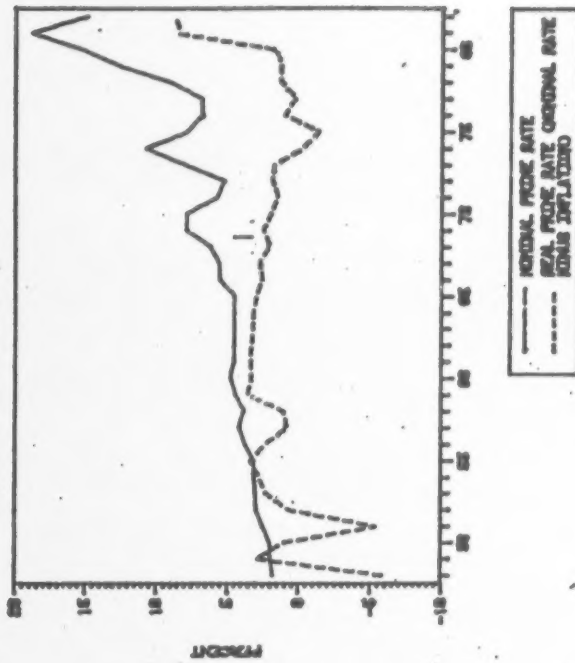
In addition, growing structural deficits, if accommodated by expansive monetary policy, raise incomes and, eventually, cause total demand to exceed the capacity of the economy and prices rise. This is another way in which structural deficits cause inflation. High inflation itself acts to diminish incentives to save and invest. So, large structural deficits reduce the private investment which is essential to long-term economic growth. Monetary policy determines whether or not the distortions that arise from structural deficits result from high real interest rates or inflation.

Recent experience confirms that structural deficits combined with restrictive monetary policy raise real interest rates as chart 2 shows. High real interest rates have led to serious weakness in interest-sensitive sectors such as housing and consumer durables, and have resulted in sharp increases in business' operating costs. High real interest rates are also a primary cause of the dramatic appreciation of the dollar relative to other currencies. This has raised the price of U.S. exports and devastated demand for U.S. goods abroad. Agricultural products are victims of the high value of the dollar and weak export growth. The decline in agricultural exports during the past 2 years led to substantial losses in farm income. Nonagricultural exports also have declined considerably during the year. Almost no sector is untouched by high interest rates.

Chart 2

TRENDS IN NOMINAL AND REAL INTEREST RATES

Prime Bank Lending Rates



ECON-20

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STRUCTURAL DEFICIT MEASURES

The "structural" deficit is not easy to measure directly because changes in economic events are so closely intertwined with Federal tax rates and program activity. One way to look at the "structural" deficit is to examine the direct effects of congressional policies. Congress enacted a number of policy changes in 1981 and 1982 that affected the FY 1982 budget and will affect future budgets. These policies include tax reductions, defense spending increases, and nondefense spending cuts. Given the budget resolution outlook for economic conditions through FY 1988, these policy changes are projected to increase the deficit from \$91 billion in FY 1984 to \$215 billion in FY 1988. The cumulative total over this period is about \$780 billion.

Table 4 compares the baseline deficit projections to forecasts of the high-employment deficit measured at a 6-percent unemployment rate. The table shows that the cyclical component of the deficit (the total deficit less the structural component) will be \$110 billion in 1984, but that by 1988 the cyclical component will be small, only about 20 percent of the total projected deficit. In other words, without further congressional action to reduce future budget deficits about 80 percent of the expected 1988 deficit would remain even if the economy attained a 6-percent unemployment rate.

Table 4

PROJECTED ACTUAL AND STRUCTURAL DEFICITS

(In billions of dollars)

	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	Cumulative
Baseline deficits.....	201	211	226	247	268	1,153
High employment (at 6 percent unemployment)	91	128	159	187	215	780
Cyclical component.....	110	83	67	60	53	373

Note.—A number of other structural deficit concepts are presented in the Congressional Budget Office's "The Outlook for Economic Recovery," February 1983, pp. 67-69. These estimates range from \$113 billion to \$261 billion in FY 1988. These various concepts suggest a range of \$400 billion to over \$1.0 trillion for the full 5-year period. The administration's estimates show a \$306 billion structural deficit in FY 1988 for a full 5-year total of \$1.4 trillion. The estimates presented above represent a middle ground.

OTHER STRUCTURAL GOALS

Without any change in congressional policies, Federal budget deficits are large and growing both in absolute dollar terms and as a percent of GNP. If Congress enacts no policy changes, not only will the deficits stay high relative to the size of the economy but the Federal deficits will absorb almost all net private savings in the economy.

Even reductions in Federal budget deficits as large as those contemplated in this resolution will leave the actual deficits high by historical standards. High deficits will absorb a large share of the savings available for new private investment, both for business in-

vestment in plant and equipment and household investment in new homes and autos and other durables.

In general, elimination of the structural deficit over time should reduce pressures on real interest rates and make longer term, stable, noninflationary growth more likely. However, how quickly the structural deficit is eliminated is a matter of judgment, requiring a balance between national priorities and cyclical considerations. Large and sudden deficit reductions could potentially reduce incomes and growth. Table 5 compares the Committee recommendation to the President's April budget update as reestimated by CBO and the House budget resolution. This table shows: (1) deficits; (2) deficit reductions; (3) deficits as a percent of GNP; and (4) deficits as a percent of net private savings. This table also provides certain historical standards against which to assess the extent to which these plans achieve deficit goals.

Table 5

COMPARISON OF VARIOUS DEFICIT REDUCTION PLANS TO ALTERNATIVE BUDGET GOALS

[Fiscal years—in billions of dollars]

	1984	1985	1986	1987	1988	Average annual level or percent	
						1960-69	1970-79
Current policy deficit	200	210	226	248	268	5.7	30.2
Proposed deficit:							
President's request ¹	185	179	149	161	159		
Committee recommendation	163	147	133	135	124		
House resolution	174	147	136	.....	.....		
Proposed reduction from current policy:							
President's request ²	-15	-31	-77	-87	-109		
Committee recommendation	-38	-64	-94	-112	-144		
House resolution	-26	-63	-90	.....	.....		
Proposed deficit as a percent of GNP:							
President's request	5.3	4.7	3.6	3.6	3.3	1.0	2.0
Committee recommendation	4.7	3.8	3.2	3.0	2.6		
House resolution	5.0	3.8	3.3	.....	.....		
Proposed deficit as a percent of net private saving:							
President's request	83.9	74.3	57.0	57.3	52.7	10.5	27.6
Committee recommendation	74.1	61.8	51.0	48.1	40.9		
House resolution	78.9	61.0	52.1	.....	.....		
Proposed deficit reduction as a percent of the structural deficit: ³							
President's request	16.5	24.2	48.4	46.5	50.7		
Committee recommendation	41.3	49.6	58.8	59.7	67.0		
House resolution	28.6	49.2	56.6	.....	.....		

¹ As re-estimated by CBO. ² Reduction from SBC current policy baseline.

³ Deficit assuming full employment (unemployment rate of 6.0 percent) projected by CBO.

CYCLICAL CONSIDERATIONS

The cyclical deficit is that part of the budget that responds to changes in the economy. Budgets are sensitive to economic cycles by design—tax receipts fall during recessions and outlays rise. Receipts are far more sensitive than outlays, and the degree of sensitivity is determined by the tax rates and tax bases as set forth by law. A progressive tax like the personal income tax is particularly sensitive to changes in the economy because as incomes change, tax liabilities change even more rapidly. For this reason, the tax system is one of the principal “automatic” stabilizers in the budget.

On the spending side, several programs (unemployment compensation insurance, AFDC, food stamps, and the means-tested programs) are sensitive to changes in unemployment. When the economy weakens and unemployment rises, spending for these programs increases and, of course, participation in these programs declines when the economy recovers.

To the extent that the budget is less sensitive to economic change than in the past, discretionary monetary and fiscal policies will be more important to economic stability in the future. However, given large “structural” deficits projected by current law, discretionary fiscal actions are likely to be limited for some time to come. If economic stabilization objectives are still to be considered important, monetary policies will have to be more sensitive to cyclical change.

MONETARY POLICY

The Federal Reserve recently announced its new targets for a variety of monetary aggregates and several associated measures of money and credit. In this announcement, the Federal Reserve widened its targets for M_1 and M_2 and raised these targets relative to 1982. The Federal Reserve also indicated its intention to monitor a new credit aggregate, total domestic nonfinancial debt, and set a range which reflects the Fed's expectations for the growth in debt during the next year. This new aggregate replaces bank credit in the Federal Reserve's monitoring system, but does not now have the status of a “target.” Table 6 compares Federal Reserve targets for 1983 to the previous targets and the actual performance of the aggregates during 1982.

Table 6

COMPARISON OF 1982 MONEY TARGETS TO 1982 ACTUAL AND TO 1983 TARGETS

[Percent change]

	1982		1983 Targets
	Targets	Actual	
M ₁	2.5 to 5	8.5	4 to 8
M ₂	6 to 9	9.2	7 to 10
M ₃	6.5 to 9	10.1	6.5 to 9.5
Bank credit	6 to 9	7.1	.....
Total domestic nonfinancial debt			8.5 to 11.5

However, the Federal Reserve has not only changed its monetary targets but it has indicated a change in operating procedures toward greater discretion. The Fed continues to place great importance on its long-term inflation objectives and therefore fiscal policy decisions remain of great importance to the long-term inflation outlook. As clearly indicated in the summary of the Fed's report, "decisive action to reduce the Treasury's demands on credit markets in the years ahead would be well received by investors and would contribute greatly to a relaxation of the continuing pressures on interest rates. Of critical importance to the interest rate outlook—and one certainly not divorced from the budget picture—is the behavior of inflation and expectations of inflation." Given the importance that the Fed accords to inflation, the Federal Reserve could exercise its discretion to restrict money growth and prevent interest rates from falling, particularly in the absence of substantial and credible action on fiscal policy. These actions could restrain real economic growth.

Several members of the Committee have expressed the concern that economic recovery will be aborted by rising real interest rates as a result of Federal Reserve's concern about long-run inflation, even at a time when the economy is still weak. The Committee proposes large reductions in the structural deficit which should provide the Federal Reserve with more flexibility to foster a durable economic recovery. Therefore, several members of the Committee initiated the following language indicating their view that, in light of congressional actions on the budget, Federal Reserve policy should be more aggressive in promoting economic growth.

It is the sense of the Congress that the substantial and permanent reductions in the structural budget deficit contained in this budget resolution shall be coordinated with a growth-oriented monetary policy.

It is the further sense of the Congress that, in light of these substantial reductions in the deficits for FY 1984 and beyond, and in light of marked reductions in inflationary

pressures, the Federal Reserve System shall conduct monetary policy so as to foster vigorous economic growth consistent with previous postwar recoveries.

The language was not formally adopted by the Committee, but the Committee expects that the issue will be raised on the floor of the Senate during consideration of the budget resolution.

BUDGET POLICIES AND BUDGET OUTCOMES

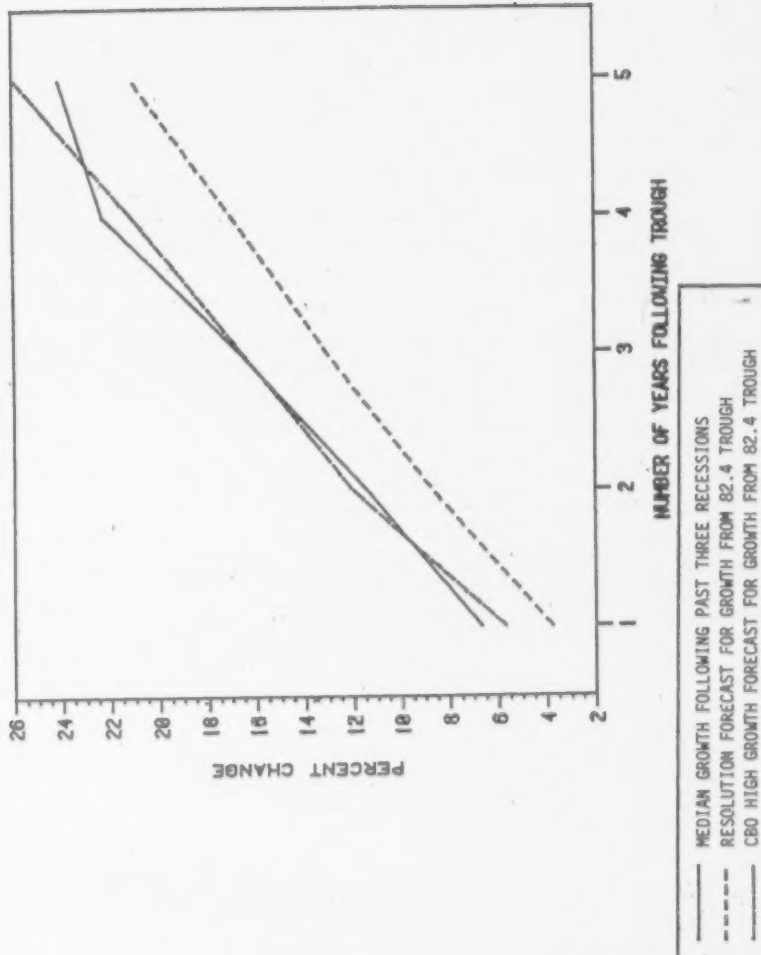
The economic forecast contained in this resolution is based on the assumption that the economic recovery, now underway, will be moderate in comparison to past recoveries, due in part to the restraining influence of historically high real interest rates. High real interest rates are a by-product of large structural budget deficits and restrictive monetary policies. Reductions in future deficits could have an important role in reducing interest rates currently which would prompt higher economic growth.

Actions to reduce structural deficits, together with other changes like lower world oil prices, could permit an economic recovery that conforms more closely to past recoveries. As indicated previously, congressional actions to lower structural deficits could result in better economic growth, lower unemployment, and lower deficits than contained in the proposed budget resolution. Thus, budget policies and budget outcomes are twice-linked: directly through deficit policies and indirectly through better economic growth.

The following chart compares the real growth assumed in this resolution, an alternative forecast for high growth, and the average growth during the previous three recoveries. The high growth forecast is the high growth alternative contained in the CBO annual report modified for recent data on 1983 real GNP growth, inflation, unemployment, and Treasury bill rates. This chart demonstrates graphically the loss in real growth implicit in the assumptions of this resolution as a result of high interest rates caused, in part, by growing structural deficits.

Chart 3

POST-RECESSION GROWTH IN REAL GNP
(percent change from trough quarter)



Even small changes in the economic outlook can have large budget effects. Actions by the Congress to reduce structural deficits may lead to lower interest rates and higher economic growth. Higher economic growth, lower unemployment, and lower interest rates would, in turn, lead to lower actual deficits. For example, 1 percent higher real growth annually during the 5-year budget horizon will reduce the actual budget deficit in FY 1988 by about \$60 billion. The estimate includes the budget effects of lower unemployment. Other favorable economic trends that might result from budget actions, such as lower interest rates, could lower the actual deficits by another \$20 billion or more. The following table compares economic assumptions in a high growth option to the assumptions of this resolution and shows the differences in budget outcomes. (This high growth option is similar to one presented in the CBO annual report, but was modified by Committee staff for the latest available 1983 data.) The table shows how changes in the economic outlook, which may result in part from the favorable effects of policy actions, can dramatically change the final budget outcome.

Table 7

ALTERNATIVE ECONOMIC ASSUMPTIONS

(Calendar years)

	1983	1984	1985	1986	1987	1988
Gross national product (current dollars—percent change, year to year):						
Modified high-growth alternative ¹	7.7	11.2	9.5	9.1	9.0	9.1
Resolution projection	6.8	9.6	9.0	8.1	7.6	7.4
Gross national product (constant dollars—percent change, year to year):						
Modified high-growth alternative	2.9	6.0	4.2	4.0	4.0	4.0
Resolution projection	2.1	4.7	4.1	3.7	3.5	3.5
Prices:						
GNP deflator (percent change, year to year):						
Modified high-growth alternative	4.6	4.9	5.1	4.9	4.8	4.9
Resolution projection	4.6	4.7	4.7	4.3	3.9	3.8
Consumer Price Index (percent change, year to year):						
Modified high-growth alternative	3.5	5.2	5.0	4.7	4.6	4.8
Resolution projection	4.5	5.0	4.7	4.1	3.9	3.7
Unemployment rate (percent annual average):						
Modified high-growth alternative	10.1	8.7	7.9	7.2	6.6	6.2
Resolution projection	10.6	9.8	9.0	8.4	8.0	7.5
91-day Treasury bill rate (percent, annual average):						
Modified high-growth alternative	7.5	6.0	5.7	5.0	5.0	4.9
Resolution projection	6.8	7.4	7.2	6.6	6.1	5.9

¹ Source: CBO annual report and SBC staff estimates.

Table 8

COMPARISON OF BUDGET AGGREGATES: COMMITTEE RECOMMENDATION VS. HIGH GROWTH ALTERNATIVE ¹

[Fiscal years—in billions of dollars]

	1984	1985	1986	1987	1988
Revenues:					
Committee recommendation	686	763	831	900	980
High-growth alternative.....	702	784	857	937	1,035
Outlays:					
Committee recommendation	849	910	964	1,035	1,103
High-growth alternative.....	840	888	936	1,003	1,072
Unified budget deficit:					
Committee recommendation	163	147	133	135	124
High-growth alternative.....	138	104	78	66	37

¹ Details may not add due to rounding.

OUTLOOK FOR RECOVERY

The economic projections underlying this budget resolution assume that an economic recovery began in the first quarter and will continue, though at a moderate pace, throughout the budget horizon. Real GNP rose 3.1 percent in the first quarter of 1983, due primarily to a substantial gain in housing and slower liquidation of inventories. This modest increase in economic activity compares with average growth of 6.0 percent during the first quarter of recovery of other postwar recessions. Real final sales rose 0.9 percent in the first quarter as small increases in personal consumption expenditures and business fixed investment and a large increase in housing offset reductions in net exports and government expenditures. Activity in the fourth quarter of last year was revised up slightly, indicating that output and income did not decline as much as originally reported.

Other economic news indicates that a solid but modest recovery is underway.

The index of leading indicators has been rising generally, but by small amounts, for the last year. The February index, however, was up 1.4 percent, after a 3.5-percent increase in January. The January index showed the largest 1-month increase in more than 30 years.

Many key cyclical sectors have also shown real signs of life. Housing starts for the first quarter of 1983 are on average 60 percent higher than the average for 1982. Building permits, particularly for single family homes, are up for the past 6 months. In fact, housing starts in both January and February were above 1.7 million units, and housing starts for March were 1.6 million, the highest levels since mid-1979.

Domestic auto sales staged a big comeback last November. They have declined somewhat since then, but have held steady in the first 3 months of 1983 at a 6.0 million annual rate. Preliminary data for the first 10 days of April suggest further strength; domestic autos sold at a 6.7 million annual rate. Auto inventories are very low, at 55 days supply in March. Auto production is expected to rise slowly.

New orders for durable goods in March were about 12½ percent above their trough level reached in October 1982. Although they have increased in 4 of the last 5 months, new orders were only slightly (0.5 percent) above year earlier levels. In the nondefense category, often viewed as an indicator of business investment activity, both new orders and shipments posted substantial gains in March. But orders were still about 12 percent below shipments and sustained increases in shipments will occur only if orders pick up more quickly.

The unemployment rate stood at 10.3 percent in March. After rising to a post-depression high of 10.8 percent in December, the unemployment rate fell sharply to 10.4 percent and has fallen little since January. Although these reductions are encouraging, most of the decline can be attributed to reductions in the labor force. Employment growth is still very weak.

COMPARISON OF FORECASTS

Although the recent data do not point to a particularly strong recovery, most forecasters have revised upward their forecasts for real growth this year. At the present time, the 1983 growth forecasts for most private economists as well as the assumptions in the administration's April budget update are higher than the assumptions in the proposed budget recommendation. Unemployment forecasts for 1983 from other private forecasts are also lower. Inflation and interest rate forecasts for 1983 are quite close to other forecasts, with the exception of the CPI. The CPI assumed in the budget resolution is somewhat higher than other forecasts, because it does not include the rapid drop in energy prices that has occurred since the beginning of the year.

The economic assumptions in the budget resolution for 1984 and 1985, however are close to other economic forecasts. Other economists project higher inflation rates and higher interest rates than assumed in the budget resolution because, under their forecasts, the economic expansion is somewhat stronger through 1985. However, private forecasters expect slightly more inflation than assumed in the budget resolution for 1984 and 1985. The administration's assumptions for real GNP growth are similar to those of private forecasters, and call for stronger growth than is expected in this resolution. Administration inflation projections, as measured by the GNP deflator, are very similar to those of the resolution.

Table 9

COMPARISON OF FORECASTS

[Calendar year average]

	1983	1984	1985
Nominal GNP (percent change):			
Blue Chip (4/10/83)	NA	NA	NA
Chase Econometrics (3/25/83)	7.2	10.4	10.4
Data Resources (3/27/83)	7.5	10.2	9.2
Evans Economics (3/25/83)	6.2	9.1	10.6
Merrill Lynch Economics (4/11/83)	8.1	10.4	NA
Wharton (3/25/83)	6.9	10.4	10.3
Average	7.1	10.1	10.1
Administration (3/23/83)	7.4	9.7	9.1
Budget Resolution	6.8	9.6	9.0
Real GNP (percent change):			
Blue Chip	2.9	4.7	NA
Chase Econometrics	2.6	4.5	4.0
Data Resources	2.6	4.8	3.8
Evans Economics	1.9	4.0	4.8
Merrill Lynch Economics	3.0	4.4	NA
Wharton	3.2	5.1	4.3
Average	2.7	4.6	4.2
Administration	2.9	4.3	4.0
Budget Resolution	2.1	4.7	4.1
GNP deflator (percent change):			
Blue Chip	4.3	5.0	NA
Chase Econometrics	4.4	5.6	6.2
Data Resources	4.7	5.1	5.2
Evans Economics	4.2	4.9	5.5
Merrill Lynch Economics	4.9	5.7	NA
Wharton	3.6	5.1	5.8
Average	4.4	5.2	5.7
Administration	4.4	4.8	4.9
Budget Resolution	4.6	4.7	4.7
Consumer Price Index (percent change):			
Blue Chip	3.5	4.8	NA
Chase Econometrics	3.1	5.1	6.4
Data Resources	3.2	5.0	5.4
Evans Economics	2.8	4.3	5.1
Merrill Lynch Economics	3.2	5.6	NA
Wharton	2.6	4.5	5.7
Average	3.1	4.9	5.7

COMPARISON OF FORECASTS—Continued

[Calendar year average]

	1983	1984	1985
Administration	2.9	4.1	4.6
Budget Resolution	4.5	5.0	4.7
Unemployment rate (percent):			
Blue Chip	10.0	9.1	NA
Chase Econometrics	10.4	9.8	8.9
Data Resources	10.0	9.1	8.5
Evans Economics	10.3	10.3	9.6
Merrill Lynch Economics	10.1	9.2	NA
Wharton	10.0	8.9	7.6
Average	10.0	9.4	8.6
Administration	10.0	9.1	8.4
Budget Resolution	10.6	9.8	9.0
3-month Treasury bill rate (percent):			
Blue Chip	NA	NA	NA
Chase Econometrics	7.5	7.0	7.9
Data Resources	7.7	8.0	8.4
Evans Economics	8.3	8.8	9.2
Merrill Lynch Economics	7.5	8.5	NA
Wharton	8.0	8.0	8.7
Average	7.8	8.1	8.6
Administration	8.0	7.9	7.4
Budget Resolution	6.8	7.4	7.2

KEY UNCERTAINTIES IN THE OUTLOOK

Although recent indicators point to economic recovery, there are several uncertainties in the current outlook which could alter the economy from the path that the Committee has assumed. One is the extent and duration of the current oil price decline and its impact on domestic and foreign economic activity. A second is the international economic outlook, the trend in world trade and the risks of default or disruption in the international financial system.

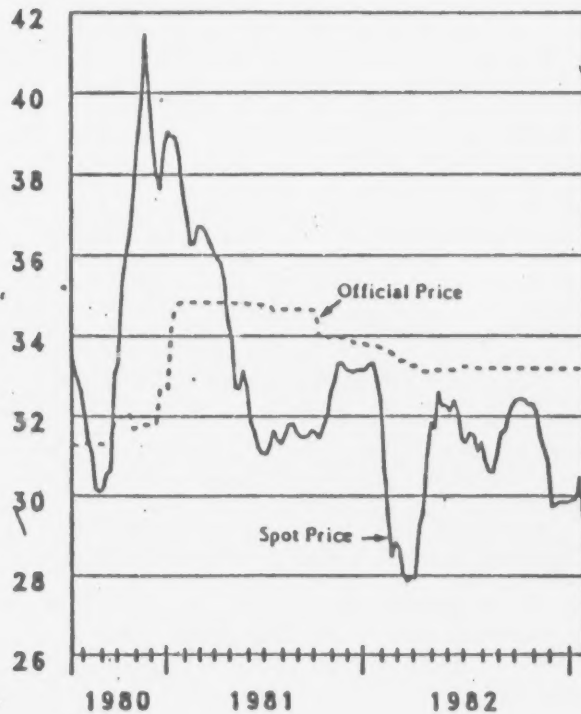
OUTLOOK FOR OIL PRICES

The budget resolution assumes that crude oil prices remain relatively stable in nominal dollar terms in 1983 and increase slightly in 1984. Specifically, the budget resolution assumes crude oil prices at \$31.5 per barrel in 1983 and \$32.5 per barrel in 1984. This compares to a \$31.9 per barrel average price for 1982. Foreign prices are assumed to be slightly higher at about \$33 per barrel in 1983 and 1984 compared to a \$33.6 per barrel average price in 1982.

Recent OPEC negotiations have resulted in a drop in the "official" oil price below these levels to \$29 per barrel, which is about 12 percent lower than the budget resolution assumes. There still exists some discounting from these lower levels. Some analysts continue to believe that oil prices could drop to the \$26 to \$28 range. Other analysts believe that, while oil price declines may be substantial, they are likely to be only temporary, and prices will rise again as the world economy recovers. Chart 4 shows the increasing divergence between spot and official prices that began in early 1981.

Chart 4

*The Drop in Spot Market Prices
for OPEC Crude Oil
(Dollars per barrel, NSA)*



Domestic Impact

A drop in oil prices is likely to have a favorable impact on the economy at least in the near term. A recent CBO analysis of the effect of a permanent reduction in refiners' acquisition cost of for-

eign crude shows significant long-term real growth and inflation benefits. A \$4 reduction in oil prices from a \$33 level currently assumed by most forecasts, will result in 0.3 percent, 0.3 percent, and 0.2 percent increase in real GNP in 1983, 1984, and 1985, respectively. This means, all other things being equal, that the real growth rate in the budget resolution would be 2.4 percent in 1983, 5.0 percent in 1984, and 4.3 percent in 1985. The CPI would be 0.3 percent, 0.1 percent, and 0.1 percent lower in 1983, 1984, and 1985, respectively.

A \$6 reduction in oil prices to \$27 per barrel would raise real GNP growth 0.4 percent in FY 1983, 0.5 percent in FY 1984, and 0.3 percent in FY 1985. This would raise the growth rates in the budget resolution economic assumptions to 2.5 percent in FY 1983, 5.2 percent in FY 1984, and 4.4 percent in FY 1985. With \$27 oil, the CPI in the CBO forecast would be 3.6 percent in FY 1983, 4.5 percent in FY 1984, and 4.3 percent in FY 1985. These estimates do not represent an "official" CBO forecast, but only CBO's judgment about the effects of lower oil prices on the baseline economic assumptions if there were no other change in their forecast. The CBO estimates of oil price effects are somewhat more conservative than other forecasters, like Data Resources, because CBO believes that some of the effect of the lower oil prices is already reflected in current energy prices and that additional reductions beyond what has already occurred will be partially offset by higher refiner profit margins.

International Impact

Lower oil prices are not without costs. Oil producing countries' trade balance will be reduced and their surplus no longer available to support world trade. This is offset by higher demand in the industrial countries.

The effect on certain oil producing countries like Venezuela and Mexico, which have a serious debt service problem, also may be severe. Some estimates indicate that a 15-percent reduction in oil prices will reduce Venezuelan and Mexican oil exports by \$3 billion.

Since financing arrangements for the debt service are based on variable interest rates, debt service costs for these countries as well as non-oil producing countries will fall if U.S. interest rates fall in line with any decline in inflation. This will reduce the impact of lower oil-related revenues. If interest rates do not decline, possibly over concern about the long-term budget situation, the "real" debt service costs to these countries will rise, requiring further domestic restraint and lower world trade.

In addition to the international aspects, many domestic financial decisions are based on the expectation of \$34 price of oil. This is particularly true for banks that have valued oil-related assets at the higher price for the purposes of extending loans. Sharp reductions in oil prices could mean a sharp reduction in profits and cash flow for domestic oil producing companies, many of which are already under stress because of losses in drilling and exploration.

However, many domestic companies are already engaged in significant price discounting. Some estimates indicate that as much as one-third of all domestic sales are taking place between 5 and 10 percent below the official price at the present time. To this extent, price weakness already should be reflected in domestic producer's operating earnings. Moreover, because of the slow erosion in energy prices over the last 18 months and the Penn Square incident, commercial banks have pruned back risky energy loans. On balance, a permanent reduction in oil prices should have a positive impact not only on the U.S. economy, but also on the whole industrialized world.

INTERNATIONAL FINANCIAL STRESS AND THE WORLD ECONOMY

A serious concern for the domestic outlook is the current weakness of foreign economies and the substantial debt burden of many developing countries that make up a large share of our export markets. Much of this debt is financed principally by U.S. banks. Anti-inflationary policies have resulted in high real interest rates throughout the world. These circumstances contributed to a global recession and an actual contraction in total world trade since 1980. Particularly hard hit are the developing countries which depend on revenues from industrial material exports to sustain their trade balance. Industrial materials prices have declined 28 percent in absolute terms since the beginning of 1980. Indeed, even oil exporting countries have had to contract imports as a result of lower oil prices and revenues.

The importance of economic trends outside of the United States is clearly evident in the sectors most affected by the recent recession. High real interest rates in the United States resulted in a dramatic appreciation of the dollar relative to other currencies. The dollar has appreciated about 17 percent since January 1980. This has increased the price of U.S. exports relative to other countries. In 1982, U.S. exports declined 5.8 percent below the level of 1980 and 10.6 percent lower than the 1981 level. In fact, over 40 percent of the decline in the domestic economy during the past recession was due to the sharp decline in the U.S. trade balance. Trends in the world economy will be an especially important determinant of U.S. growth during the next year.

This difficult turn of economic events has exacerbated the growing debt burden of the LDCs to a crisis status. More than 25 countries around the world are unable to pay the interest on their substantial debt, now estimated at more than \$200 billion. Thirty-six percent of the total \$200 billion in LDC debt is owed to U.S. banks and about 22 percent or \$77 billion is owed to the nine largest banks in the United States.

Unfortunately, some of the countries affected by these financial problems are important U.S. export markets. Developing countries account for 38 percent of U.S. exports. Fortunately, less than 15 percent of U.S. exports go to Venezuela, Mexico, Brazil, and Argentina, which all together account for 84 percent of the total gross external debt in Latin America. These countries will have to

reduce their imports substantially in order to improve their current account balances. This could hurt U.S. export markets if growth in other markets fails to offset these losses.



CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

Alice M. Rivlin
Director

March 9, 1983

The Honorable Pete V. Domenici
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

In response to the letter of March 2, 1983, signed by you and your colleagues, CBO has analyzed the economic and budgetary consequences of lower oil prices. Our preliminary analysis suggests that, if the reduction in oil prices is substantial and permanent, it could have very favorable effects on the economy—lower inflation and faster economic growth—and reduce the budget deficit significantly in the outyears.

Any evaluation of the consequences of the current situation in oil markets is fraught with uncertainty. One reason is that at this time it is not at all clear that the reductions in oil prices will be permanent. Some analysts believe that crude oil prices will bounce back strongly as inventory adjustments are worked off and as world economic recovery takes place. The effects on the economy of a temporary decline in oil prices that is quickly reversed would be quite small. Another reason is that the impact of lower oil prices, even if permanent, would depend critically on the monetary policy followed by the Federal Reserve.

Enclosed is a more detailed analysis, which I hope will be useful in your deliberations on the budget.

Sincerely,

Alice M. Rivlin

Enclosure

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ECONOMIC AND BUDGETARY CONSEQUENCES OF AN OIL PRICE DECLINE—A PRELIMINARY ANALYSIS

SUMMARY

Petroleum prices have declined during the last several weeks because of a sharp run-off of inventories. The inventory decline, which is expected to last only a few months, reflects an adjustment of stocks to weak demands arising from the worldwide recession and from warm weather. Whether the price of oil will remain lower or move back up depends in the short run on the ability of the OPEC nations to match the decline in demand with cuts in production, and over the next year or so on the strength of the recovery in oil demand.

In CBO's view, a sizable and permanent decline in oil prices would have a very favorable effect on inflation and on economic growth in the United States, and would significantly reduce the projected baseline budget deficit by 1988. The macroeconomic effects of oil price declines on oil consumers resemble those of tax cuts. But while they allow oil consumers to spend more money on other things, they reduce the purchasing power of oil producers. Since part of the loss in producers' revenue is borne by foreign oil producers, the net direct effect on disposable income in the U.S. economy of a \$6 per barrel decline in crude oil prices would be like that of a cut in taxes worth about \$10 billion at an annual rate (this is the reduction in the revenue of foreign oil producers from exports of oil to the United States).

There is great uncertainty about both the magnitude and the duration of the decline in oil prices, and therefore about the economic effects. Four factors contribute to the uncertainty:

- o **OPEC policies.** It is uncertain whether OPEC producers will be able to allocate production during the period of weak demand and to restore prices thereafter.
- o **The strength of the economic recovery.** If the global recovery now under way is strong, rising demands for energy may result in a reversal of the present decline in energy prices.
- o **Refiners' margins.** Petroleum product prices have already declined more sharply than the world price of oil, severely eroding

refiners' margins. Thus changes in OPEC prices are not likely to be fully reflected in further product price changes.

- o **Monetary policy.** If money growth is unaffected by the decline in energy prices, the real money stock will increase, thereby providing a boost to economic growth. But if monetary authorities use the decline in prices as an opportunity to reduce money growth, the gains in real economic growth may be somewhat smaller.

Because of these uncertainties, a permanent decline in oil prices or a very temporary decline—which would have small economic effect—are both plausible at this time. Accordingly, CBO has estimated the economic and budgetary consequences of alternative oil price scenarios. These estimates show that if product prices were to decline permanently from last summer's levels by, say, \$6 per barrel (half of which has already occurred) and if imported crude prices were to be adjusted by the full \$6, then consumer price levels might be nearly 1½ percent lower in 1984 and real GNP might be about 1 percent higher than CBO's January forecast (see Table 1). But in the short run, the deficit would change only a little. A \$6 oil price decline is estimated to reduce the unified budget deficit by only about \$6 billion in fiscal year 1984.

CBO believes that a permanent decline in oil prices would have a favorable long-run effect on the U.S. economy. As shown in Table 1, CBO's estimates indicate that by 1988 real GNP would be 1.5 percent higher and the price level 1.8 percent lower as a result of a permanent \$6 per barrel reduction in oil prices. Higher growth and lower unemployment would significantly reduce the unified budget deficit, even though windfall profit tax revenues would be slightly lower. The unified budget deficit under baseline assumptions would be reduced by about \$30 billion in 1988.

But a permanent reduction in oil prices may not be the most likely outcome. In fact, many analysts expect that the price will begin rising later this year and return to the \$32 to \$34 per barrel range for marker crude ^{1/}some time in 1984. If this should occur, then the economic and budgetary effects of the oil price decline will be temporary.

^{1/} The marker crude price, for a specified Saudi Arabian crude oil, is used as a reference for OPEC oil prices.

TABLE 1. HOW OIL PRICE CHANGES WOULD AFFECT THE ECONOMY AND THE BUDGET ^{a/}

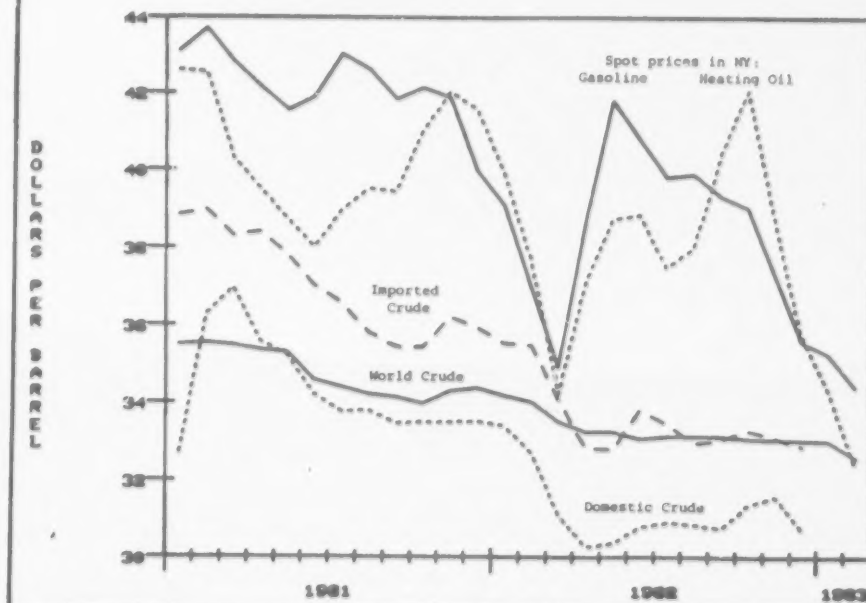
	1983	1984	1985	1986	1987	1988
	Calendar Years					
Real GNP (Percent change)						
CBO Baseline	2.1	4.7	4.1	3.7	3.5	3.5
Oil price cuts:						
\$4	2.4	5.0	4.3	3.8	3.5	3.5
\$6	2.5	5.2	4.4	3.8	3.6	3.5
\$8	2.7	5.4	4.5	3.9	3.6	3.5
CPI-U (Percent change)						
CBO Baseline	4.5	5.0	4.7	4.1	3.9	3.7
Oil price cuts:						
\$4	4.2	4.9	4.6	4.1	3.9	3.7
\$6	3.6	4.5	4.3	4.0	3.8	3.7
\$8	3.2	4.2	4.0	3.9	3.8	3.7
Unemployment Rate (Percent)						
CBO Baseline	10.6	9.8	9.0	8.4	8.0	7.5
Oil price cuts:						
\$4	10.6	9.6	8.8	8.1	7.7	7.2
\$6	10.5	9.5	8.6	8.0	7.5	7.0
\$8	10.5	9.4	8.4	7.8	7.3	6.8
	Fiscal Years					
Revenues						
CBO Baseline	606	654	718	773	827	882
Oil Price cuts:						
\$4	606	657	723	780	838	896
\$6	605	654	719	775	834	893
\$8	605	652	717	774	835	896
Outlays						
CBO Baseline	801	855	928	1000	1074	1150
Oil Price cuts:						
\$4	800	852	924	995	1067	1141
\$6	800	848	916	985	1056	1129
\$8	799	846	911	977	1046	1118
Unified Deficit						
CBO Baseline	195	201	211	227	247	268
Oil Price cuts:						
\$4	194	195	201	215	229	246
\$6	195	194	197	209	222	236
\$8	194	194	194	203	211	222

^{a/} Oil price changes are given in terms of reductions from the world crude oil prices implicit in the CBO baseline economic projections. Reductions in oil product prices would be generally smaller. Economic and budgetary effects are compared with CBO's baseline economic and budget projections.

Recent Price Developments

Posted world oil prices declined by about \$3 per barrel from February 1981 to February 1983. Over the same period, the average refiners' acquisition cost of imported crude fell from about \$39 per barrel to about \$33 per barrel. The difference between this \$6 decline and the \$3 decline in official prices is accounted for by spot market transactions, purchases from non-OPEC producers, quality changes, and discounts from official prices. The decline in the refiners' acquisition cost was particularly sharp in early 1982, when spot product market prices dipped by about \$8 per barrel in a few months due to inventory adjustment. Product prices then rose again but crude prices stayed down. Product prices once again began to fall sharply in the second half of 1982, and by February 1983 had fallen by about \$8 per barrel from levels prevailing at mid-1982.

The refiners' acquisition cost for domestically produced crude has remained well below the cost of imported crude. The average cost of domestic and imported crude is reportedly now close to \$30 per barrel, implying substantial falls in both domestic and imported crude prices since the last official data available for November 1982.



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THE CURRENT OIL MARKET

The official OPEC price for marker crude has been \$34 per barrel since mid-1980. But defending this price has been very difficult for the cartel, especially since its share of world oil production has declined precipitously since 1979. Progressive discounting of crude oil prices by OPEC members outside the Gulf, and price cuts by non-OPEC producers, were reflected in the \$6 per barrel decline in U.S. refiners' acquisition cost for imported crude from 1980 to November 1982 (the latest data available). Prices of petroleum products have declined even more sharply: the average U.S. price of regular leaded gasoline, for example, has dropped from \$1.35 per gallon in March 1981 to about \$1.09 per gallon in recent weeks. This reduction of product prices has greatly reduced profits from refining.

There are five main reasons for the current weakness in dollar prices of oil:

- o Extremely high oil prices have induced conservation. Between 1978 and 1980, the OPEC marker price rose from \$12.70 to \$34 per barrel. For many countries the price of oil has continued to increase since then, because OPEC oil prices are denominated in dollars and the value of the dollar has risen in terms of foreign currencies. Thus crude oil prices in many importing countries have more than tripled in local currency terms since 1978, while in dollar terms they have more than doubled. This price increase has induced substantial conservation.
- o Most countries have experienced one or (in the case of the United States) two recessions since 1979. Reductions in oil demand exceeded reductions in economic activity, since the hardest-hit sectors of the economy were the goods-producing sectors, which are also the most energy-intensive.
- o High interest rates have made it much more costly to hold inventories of oil products. Refiners in the United States are now reportedly following a policy of holding low inventories, and relying on production adjustments to cover unexpected and seasonal variations in product demand. In addition, there has probably been a substantial inventory reduction among oil users, in anticipation of continued disagreement in OPEC and large price reductions.
- o The weather this winter has been unusually warm in most of the northern hemisphere, reducing demand for heating oil.

- o The reduction in oil demand, due to conservation, recession, warm weather, and inventory adjustment, has left the demand for OPEC oil well below production capacity. It has proved difficult for OPEC to allocate lower production quotas to support the dollar price of oil. There has also been disagreement over the appropriate differentials among the prices of crude oils of different qualities in different locations.

Of these factors, the most important contribution to declining oil prices in recent weeks has been the significant inventory drawdown. Oil market analysts place this drawdown at as much as 6 to 8 million barrels per day worldwide, about 4 to 6 million barrels per day above the normal drawdown at this time of year. In response to reduced orders, OPEC output has dropped below 15 million barrels per day, less than half of their production level of several years ago. The inventory adjustment is expected to end in the second quarter. Indeed, most forecasts predict that average OPEC production will reach about 18 million barrels per day this year.

Product and spot crude oil prices dropped sharply early in 1982, in an episode similar to the current one. At that time, the inventory adjustment was due to very high interest rates, coupled with the realization that the world economy was not recovering from recession as expected. OPEC managed at that time to maintain the official price, though the cost of U.S. oil imports did drop significantly.

It has become clear that the \$34 per barrel marker price is not tenable at this time, but there has been no OPEC agreement on new prices or production. (A series of meetings is in progress.) In the past, official OPEC price moves have generally followed the spot market, which is currently signalling a price in the range of \$27-\$29 per barrel for marker crude. This is broadly consistent with the price cuts that have been separately announced by Nigeria and Britain. But these price cuts may reflect short-term destocking and are based on a small volume of oil. Although it is thus very difficult to predict the change in OPEC prices over the next few months, many analysts believe the cut in OPEC prices is likely to be less than \$6, and may be reversed in the next year or so.

It is not clear whether a small reduction in crude oil prices will lead to significant further reductions in product prices. As noted above, prices of refined products have already declined substantially, cutting deeply into refiners' margins. Much of the projected decline in crude oil prices reflects a delayed adjustment to lower product market prices and will therefore lead to increased refiners' margins rather than to even lower product prices. While it is impossible to be precise, it seems likely that a decline of

about \$3 per barrel in official OPEC prices would reflect both current lower product market prices, and the discounting that occurred at the old OPEC prices. Anything more than a \$3 per barrel decline in official prices would therefore mean even lower prices of petroleum products.

The outlook beyond the next few months becomes even more speculative. If OPEC production settles down to levels that would support a price in the range of \$27-\$29 per barrel, increases in demand might cause dollar prices to begin to rise again by next year:

- o The current inventory adjustment will end, and restocking may occur;
- o The forecast recovery of the world economy will add to world oil demand;
- o Many forecasters expect the dollar to drop around 10 percent in the next year. This would be equivalent to a further 10 percent price cut for the 70 percent of oil consumed outside the United States.

Although oil price increases are a possible outcome when demand begins to increase again, it is also possible that OPEC will prefer to increase output rather than prices. In the past ten years OPEC has usually accommodated demand variations with changes in output rather than price changes, and the two major exceptions--in 1973 and 1979-80--both occurred when OPEC output was at historically high levels.

Another possibility is that internal dissension in OPEC will continue, leading to competition for market share that will push the price of oil well below the \$27-\$29 per barrel range. If oil production returned to 1978 levels, the price might fall to the \$15-\$20 per barrel range, which cleared the market in 1978. However, most analysts find it unlikely that OPEC will be pushed so far.

Given this uncertainty about the future path of oil prices, it is impossible to support any proposed forecast of prices with a detailed and convincing analysis. Table 2 therefore presents three alternative paths for imported oil prices, together with the assumption used in the baseline CBO economic forecast. The three alternative paths reflect world price declines from levels prevailing in the second half of 1982. From 1985 onward, world crude oil prices are assumed to increase parallel to the CBO baseline projection.

TABLE 2. ALTERNATIVE WORLD CRUDE OIL PRICE PATHS, 1983-88

	1982:4	Mid-1983	1984	1985	1986	1987	1988
CBO Baseline Assumption	33.0	33.0	33.0	33.3	34.2	35.6	37.0
\$4 cut	33.0	29.0	29.0	29.3	30.2	31.6	33.0
\$6 cut	33.0	27.0	27.0	27.3	28.2	29.6	31.0
\$8 cut	33.0	25.0	25.0	25.3	26.2	27.6	29.0

IMMEDIATE EFFECTS OF LOWER OIL PRICES ON THE ECONOMY

Impacts on Inflation

Lower oil product prices could have a substantial impact on inflation. A reduction of \$6 per barrel in petroleum product prices would, if fully passed through to consumers, cut consumer prices on average by about 1½ percent. ^{2/} In addition, lower oil prices mean lower prices for competing fuels. And lower energy prices in general would lead to smaller cost-of-living payments in wage contracts, and might promote smaller settlements in wage negotiations. Taking these factors into account, a \$6 per barrel reduction in petroleum product prices might eventually reduce consumer prices by between 2½ and 3 percent below what they would otherwise have been. This is an adjustment in the price level, rather than a permanent reduction in the inflation rate. Permanent reduction in inflation is also possible, depending on whether monetary policy becomes more or less restrictive. ^{3/}

These calculations are unlikely to be applicable directly to the current situation. As noted above, a \$6 drop in official OPEC prices would reflect a decline in product prices that, to a large extent, has already occurred. Roughly speaking, a \$6 decline in official OPEC prices appears to be consistent with about a \$3 per barrel decline in product prices since CBO's baseline forecast was estimated.

Table 3 presents the direct impact on consumer prices and the GNP deflator, based on the oil price paths in Table 2. Note that the GNP deflator reflects the increased margins of U.S. oil refiners, as well as lower consumer prices for oil, and therefore falls by less than the Consumer Price Index.

^{2/} This estimate is for the change in the personal consumption deflator. The impact on consumer prices measured by the CPI would be somewhat larger, since the weight of oil consumption in the CPI reflects consumption patterns in 1972 when the price was about one-tenth of the current price.

^{3/} In the past, movements in the underlying or permanent rate of inflation, measured by normalized unit labor costs or by price measures which exclude the direct impacts of oil prices, have been much smaller than movements in the CPI.

TABLE 3. DIRECT PRICE IMPACTS OF OIL PRICE PATHS (Price reductions from CBO baseline economic projections)

Imported Crude Oil (\$/barrel)	Refined Products (\$/barrel) <u>a/</u>	CPI (percent) <u>b/</u>	GNP Deflator (percent) <u>b/</u>
4	1	0.3	0
6	3	0.8	0.2
8	5	1.4	0.4

a/ Assumes that the reduction in prices of refined products between the summer of 1982 and the CBO baseline forecast was about \$3 per barrel.

b/ These are changes in price levels. If they occur within one year, the inflation rate will fall by the indicated amount for that year.

Impacts on Disposable Incomes

A reduction in oil prices generates changes in disposable incomes in a manner analogous to reductions in personal or excise taxes. A \$6 per barrel reduction in imported oil prices would affect disposable incomes and wealth mainly through the following channels:

- o Lower oil prices leave the consumer with more money to buy other things. If oil product prices drop \$6 per barrel, then approximately \$32 billion that would otherwise be spent on oil is available to spend on something else. ^{4/} Product prices have already fallen by the equivalent of several dollars per barrel since last summer, so consumers have already benefited.
- o Lower prices of imported oil reduce the outflow of dollars to foreign oil producers, and improve the U.S. terms of trade. This is a net gain to the United States, worth about \$10 billion.
- o Domestic oil producers account for about 10 million barrels per day, so a \$6 reduction for domestic crude would cut their revenues by about \$22 billion per year. But domestic crude prices have for some time been below foreign prices for equivalent crudes, and thus have not got so far out of line with product prices. The remaining adjustment in domestic crude prices, if foreign crude falls by \$6 per barrel, would likely be only about \$3 per barrel.
- o Refiners' margins would fall by the amount of the decline in product prices, less the amounts accounted for by lower revenues to foreign and domestic producers.

These changes in income flows then lead to changes in tax receipts. A reduction in the price of domestic crude oil will reduce federal taxes through the windfall profits tax and corporate tax, and will also reduce state corporate taxes. These taxes together account for about 85 percent of domestic oil producer revenues at the margin. Refiners in the United States are subject to corporate tax. Profits of U.S. oil companies derived from foreign production and refining activities are also in principle taxable in the

^{4/} Roughly half this reduction in oil spending accrues directly to consumers; the other half reflects lower costs of oil used to produce other goods and services (including services of government).

United States. The likely direct and indirect effects of oil price changes on the federal deficit are further discussed below.

Impacts on Interest Rates

Lower oil prices may also stimulate the economy by reducing nominal, and perhaps real, interest rates.

- o If lower oil prices curb inflation permanently, then the inflation premium in interest rates should decline. But as noted above, the long-run decline in inflation is likely to be relatively small, and depends on what happens to monetary policy.
- o Lower inflation would slow nominal GNP growth, and if the money supply was not also slowed would permit real interest rates to fall.
- o If current interest rates contain an uncertainty premium because of the exposure of some banks to debt problems in developing countries, lower oil prices might reduce this premium. All developing countries would benefit from higher economic activity in developed countries, and perhaps from lower interest rates too. For most, lower oil prices would directly improve the balance of payments, thus diminishing their debt problems. The few developing countries that are oil producers—notably Mexico, Venezuela, Nigeria, and Indonesia—would be in a worse situation.

Impacts on International Trade

Declines in oil prices would benefit all the oil-importing industrial economies. Both economic activity and output would be likely to increase abroad, while inflation rates would dampen. The relative magnitudes of these improvements would, however, vary from country to country depending on the sensitivity of each economy to reductions in energy costs.

A decline in OPEC oil prices would improve the trade balances of the United States and of other oil-importing countries. The United States imports less oil than other major industrial nations, so that the oil import

bill would decline somewhat less than in other countries, relative to GNP. But the U.S. depends more on oil (that is, domestic plus imported oil) for production than other countries. Overall, it seems likely that a \$6 per barrel drop in prices of imported crude would increase U.S. net exports by about \$11 billion per year in current dollar terms, almost all of which is attributable to the direct impact of lower oil import costs. Since other countries would be similarly affected, the net impact on the exchange rate is extremely difficult to determine.

ULTIMATE EFFECTS OF LOWER OIL PRICES

Effects on the U.S. Economy

Preliminary estimates of the impact of three alternative oil price paths on major economic indicators are presented in Table 4. These estimates reflect both the direct impacts of the oil price reductions on prices, disposable incomes, interest rates, and net exports outlined in previous sections and the responses of other sectors of the economy to these developments.

Real GNP growth rises above the CBO baseline path in the early years for three reasons:

- o The decline in world prices for crude oil results in a transfer of purchasing power from foreign oil producers to domestic sectors of the economy. The rise in disposable incomes results in more consumption and investment over the near term;
- o Other oil-importing countries also experience improved purchasing power. This results in an increase in the demand for U.S. exports;
- o The decline in windfall profit tax liabilities offsets some of the adverse impact of lower oil prices on domestic oil producers.

Similarly, the rate of inflation, as measured by the Consumer Price Index, falls well below the CBO baseline path. These estimates reflect the direct impact on prices presented in Table 3 above, and the indirect effects on other sectors of the economy:

- o Lower oil prices place downward pressure on prices of alternative sources of energy, resulting in lower production costs for domestic goods;
- o Other prices respond to the lower energy prices and production costs;

- o Lower prices mean lower wage claims through lower cost-of-living adjustments and reduced needs for "catch-up" for losses in income due to past inflation.

The pick-up in aggregate demand does result in some upward pressure on prices, but these effects are quite modest. However, none of the assumed declines in oil prices result in a permanent lowering of either real growth or inflation. While the level of real output is higher and the level of prices is lower, they are both expanding at rates not significantly different from the CBO baseline as the economy moves into the second half of the decade. The rate of unemployment, on the other hand, remains lower through 1988.

The response of the Federal Reserve to the change in oil prices is extremely important to the macroeconomic outcome. The monetary authorities are assumed to adhere to the same growth path for a monetary aggregate in the face of lower oil prices, so the real money stock increases. This is evidenced by the somewhat lower interest rates in Table 4. In essence, the Federal Reserve uses this opportunity to provide more stimulus to the economy while inflation is low. But it is also possible that the monetary authorities might reduce money growth. In general, a tighter monetary policy response would mean smaller increases in real GNP and larger reductions in inflation than the estimates presented in Table 4.

Oil price declines are not necessarily permanent. Earlier discussion in this paper pointed to the possibility that oil prices might revert in 1984 to something close to the CBO January forecast path, as a result of the end of destocking and of stronger world economic growth. The probability of a temporary decline is seen as about equal to that of a permanent decline below the CBO baseline. Such a temporary decline in oil prices would have only a temporary impact on real GNP and prices, which would be largely reversed as prices rose again.

TABLE 4. ECONOMIC EFFECTS OF ALTERNATIVE OIL PRICE PATHS, BY CALENDAR YEARS (Percent change from CBO baseline economic projections, except where noted)

	1983	1984	1985	1986	1987	1988
Oil Prices \$4 Lower:						
Real GNP	0.3	0.6	0.8	0.9	0.9	0.9
Real GNP growth (percentage points)	0.3	0.3	0.2	0.1	0.0	0.0
GNP	0.3	0.6	0.8	0.9	0.9	0.9
GNP growth (percentage points)	0.3	0.3	0.2	0.1	0.0	0.0
Unemployment rate	-0.1	-0.2	-0.2	-0.3	-0.3	-0.3
GNP deflator	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Consumer Price Index	-0.3	-0.4	-0.5	-0.5	-0.5	-0.5
3-month Treasury Bill rate	-0.2	-0.1	0.0	0.0	0.0	0.0
AAA corporate bond rate	-0.1	-0.1	0.0	0.0	0.0	0.0
Oil Prices \$6 Lower:						
Real GNP	0.4	0.8	1.1	1.2	1.3	1.3
Real GNP growth (percentage points)	0.4	0.4	0.3	0.1	0.1	0.0
GNP	0.1	0.3	0.3	0.4	0.5	0.5
GNP growth (percentage points)	0.1	0.2	0.0	0.1	0.1	0.0
Unemployment rate	-0.1	-0.3	-0.4	-0.5	-0.5	-0.5
GNP deflator	-0.3	-0.6	-0.9	-1.0	-1.0	-1.0
Consumer Price Index	-0.9	-1.4	-1.8	-1.9	-1.8	-1.8
3-month Treasury Bill rate	-0.6	-0.5	-0.4	-0.3	-0.2	-0.1
AAA corporate bond rate	-0.3	-0.3	-0.2	-0.1	-0.1	-0.1
Oil Prices \$8 Lower:						
Real GNP	0.6	1.3	1.7	1.9	2.0	2.0
Real GNP growth (percentage points)	0.6	0.7	0.4	0.2	0.1	0.0
GNP	0.2	0.4	0.2	0.3	0.4	0.4
GNP growth (percentage points)	0.2	0.2	-0.2	0.1	0.1	0.0
Unemployment rate	-0.1	-0.4	-0.6	-0.7	-0.7	-0.8
GNP deflator	-0.4	-0.9	-1.4	-1.6	-1.6	-1.6
Consumer Price Index	-1.3	-2.1	-2.8	-3.1	-3.0	-3.0
3-month Treasury Bill rate	-0.9	-0.7	-0.6	-0.5	-0.4	-0.2
AAA corporate bond rate	-0.4	-0.3	-0.3	-0.2	-0.1	-0.1

Effects on the Federal Deficit

Permanently lower oil prices would have significant effects for projected federal budget deficits over the next five years. While the net reduction from the CBO baseline deficit projections would be quite small in 1984, it would increase to as much as \$31 billion by 1988 under the \$6 per barrel lower price scenario.

The net effect of lower oil prices for federal revenues would be relatively small throughout the five-year projection period (1984-1988). Gross windfall profit tax collections would be lower as shown in Table 5. Substantial reductions in domestic crude oil prices would mean that some domestically produced oil would no longer give rise to any windfall profit tax liability. Lower inflation would also reduce federal revenues, but this would be more than offset by revenue gains derived from greater real growth in the economy. As a result, the net effect of the economic changes portrayed in Table 4 on federal revenues would be modest. Relative to CBO's baseline projections, federal revenues would be \$10 to \$13 billion higher in 1988 under the lower oil price scenarios.

The net effect of lower oil prices for federal outlays would be greater than for revenues because all of the economic changes would work in the same direction. Projected cost-of-living adjustments for Social Security and other indexed benefits would be smaller as a result of lower inflation. Lower interest rates would reduce net interest costs. Lower inflation and unemployment would also reduce projections for other benefit programs such as food stamps, assistance payments, Medicare, and Medicaid. In addition, projections for federal employee pay raises and for nondefense discretionary spending would be somewhat lower. Finally, lower oil prices would reduce the cost of oil purchases by the Defense Department and for the Strategic Petroleum Reserve (an off-budget spending program). As shown in Table 5, the net outlay reductions of a \$6 per barrel lower oil price would grow from \$6 billion in 1984 to \$21 billion in 1988.

It should be emphasized that the favorable effects of the petroleum price reduction on the federal deficit result from the assumed stimulation of real economic growth. If real growth does not accelerate in response to the oil price decline (for example, if it is neutralized by changes in monetary policy), then the budget effects would be much less favorable.

TABLE 5. BUDGET DEFICIT EFFECTS OF ALTERNATIVE LOWER OIL PRICE PATHS
(Changes from baseline projections, by fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988	Cumulative Five-Year Total
Oil Prices \$4 Lower:						
Windfall profit tax (gross)	1	1	1	1	1	5
Other revenues	-4	-6	-7	-11	-14	-44
Indexed benefits and unemployment insurance	*	-2	-2	-3	-3	-10
Interest costs	-1	-2	-2	-3	-5	-13
Other outlays	-1	-1	-1	-1	-1	-5
Total Deficit Effects	-6	-10	-12	-17	-22	-66
Oil Prices \$6 Lower:						
Windfall profit tax (gross)	3	3	3	3	3	15
Other revenues	-3	-5	-5	-10	-13	-36
Indexed benefits and unemployment insurance	-2	-4	-5	-6	-7	-25
Interest costs	-4	-5	-7	-7	-9	-32
Other outlays	-1	-3	-4	-4	-5	-17
Total Deficit Effects	-6	-14	-17	-25	-31	-94
Oil Prices \$8 Lower:						
Windfall profit tax (gross)	6	5	5	4	4	24
Other revenues	-4	-5	-6	-12	-17	-44
Indexed benefits and unemployment insurance	-2	-6	-8	-10	-10	-38
Interest costs	-5	-7	-9	-11	-13	-45
Other outlays	-2	-4	-6	-7	-8	-27
Total Deficit Effects	-7	-17	-24	-36	-45	-130

CBO Baseline Deficit	201	211	227	247	268	1,152
Oil Prices \$4 Lower	195	201	215	229	246	1,086
Oil Prices \$6 Lower	194	197	209	222	236	1,059
Oil Prices \$8 Lower	194	194	203	211	222	1,023

* Less than \$500 million.

Chapter IV. REVENUES

SUMMARY

The Budget Committee recommends a revenue level of \$685.6 billion for FY 1984. This assumes a \$30.2 billion revenue increase in FY 1984. The Committee also recommends a revenue level of \$762.6 billion in FY 1985 and \$830.8 billion in FY 1986. These revenue levels provide for revenue increases of \$39.1 billion and \$51.9 billion in FY 1985 and FY 1986.

REVENUE BASELINE

The revenue baseline used by the Committee during its deliberations on the budget resolution is shown in table 1 below. The revenue baseline was estimated by the Congressional Budget Office as of the end of the 97th Congress, using the economic assumptions adopted by the committee. Certain reestimates that developed after the baseline was prepared are not included in the table below but have been assumed in the Committee recommendation.

The social insurance portion of the revenue baseline lists the revenues for the social security and medicare trust funds separately, as required by section 347(a)(1) of the Social Security Act Amendments, Public Law 98-21. Since the baseline was computed as of the end of the 97th Congress, the revenue effects of Public Law 98-21 are not included; however, they are assumed in the Committee recommendation as are the revenue effects of Public Law 98-4.

Table 1

REVENUE BASELINE

[In billions of dollars]

Source	Actual	Baseline					
	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Individual income taxes.....	297.7	285.8	295.2	320.8	345.4	371.6	400.0
Corporation income taxes.....	49.2	40.3	55.8	65.2	74.0	83.1	87.7
Social insurance taxes and contributions: ¹							
OASDI.....	145.1	148.5	161.3	180.9	197.9	211.8	228.3
HI.....	34.7	35.9	39.2	43.4	49.8	54.3	58.5
Other.....	21.7	27.9	31.6	36.6	40.9	42.2	43.4
Excise taxes:							
Windfall oil tax.....	18.9	14.4	13.5	12.2	10.3	9.6	9.0

REVENUE BASELINE—Continued

(in billions of dollars)

Source	Actual	Baseline					
	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Other.....	17.4	23.4	28.3	29.6	26.3	26.2	27.1
Estate and gift taxes.....	8.0	6.1	5.9	5.6	5.0	4.6	4.3
Custom duties.....	8.9	9.2	9.6	10.0	10.3	10.6	10.8
Miscellaneous revenue.....	15.2	14.9	13.4	13.6	13.5	13.2	13.3
Total revenues.....	617.8	606.3	653.9	717.8	773.5	827.1	882.4
Nominal growth (percent).....	3.1	-1.9	7.9	9.8	7.8	6.9	6.7
Real growth (percent).....	-3.7	-6.2	3.0	4.8	3.2	2.8	2.7

¹ Excludes Public Law 98-21.

FINANCE COMMITTEE RECOMMENDATION

The Finance Committee voted to forward the Administration revenue proposal "without endorsement of any specific proposal or the overall revenue total." It accepted the Administration's February economic assumptions. In addition, the Finance Committee requested that \$0.1 billion of revenue be allowed for miscellaneous tax and tariff bills.

COMMITTEE RECOMMENDATION

The Committee recommends a revenue level of \$685.6 billion in FY 1984. This assumes \$30.2 billion in revenue increases. The Committee recommendation also assumes a \$0.1 billion reduction each year for miscellaneous tax and tariff legislation.

Table 2

COMPARISON OF COMMITTEE RECOMMENDATION TO REVENUE BASELINE

(in billions of dollars)

	Actual FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Revenue baseline.....	617.8	606.3	653.9	717.8	773.5	827.1	882.4
Enacted legislation and technical reestimates ¹		3.1	1.5	5.7	5.4	6.9	17.4
Revenue changes.....		0.1	30.2	39.1	51.9	65.6	80.0
Committee recommendation.....	617.8	603.1	685.6	762.6	830.8	899.6	979.8
As a percent of GNP.....	20.4	18.9	19.6	20.0	20.0	20.2	20.4

¹ Includes Public Law 98-4 and Public Law 98-21. The revenue increases enacted in Public Law 98-21 are \$5.5 billion in FY 1984, \$7.3 billion in FY 1985, \$7.8 billion in FY 1986, \$9.8 billion in FY 1987, and \$18.8 billion in FY 1988.

No assumption was made regarding the manner in which these sums would be raised.

The following table compares the Committee recommendation to the administration's revenues proposed in the April budget update as reestimated by CBO.

¹ Includes Public Law 98-4 and Public Law 98-21. The revenue increases enacted in Public Law 98-21 are \$5.5 billion in FY 1984,

Table 3

COMPARISON OF ADMINISTRATION REVENUES AND THE COMMITTEE RECOMMENDATION

[In billions of dollars]

	FY 1983	FY 1984	FY 1985	FY 1986
Administration	603.1	657.7	728.9	824.6
Committee recommendation	603.1	685.6	762.6	830.8
Administration compared to Committee recommendation		-27.9	-33.7	-6.2

TAX EXPENDITURES

Tax expenditures total \$327.5 billion in FY 1984. Table 4 shows the revenue effect of these items for FY 1983 through 1988. It should be noted that, because of interaction among the provisions, the revenue effect of altering more than one of these preference items would not necessarily equal the sum of each individual item.

Table 4

TAX EXPENDITURE ESTIMATES BY FUNCTION ¹

[Fiscal years, in millions of dollars]

Function	Corporations						Individuals					
	1983	1984	1985	1986	1987	1988	1983	1984	1985	1986	1987	1988
<i>National defense:</i>												
Exclusion of benefits and allowances to Armed Forces personnel												
Exclusion of military disability pensions							2,205 165	2,250 160	2,380 165	2,520 175	2,670 185	2,820 195
<i>International affairs:</i>												
Exclusion of income earned abroad by United States citizens							1,285	1,300	1,365	1,435	1,505	1,580
Deferral of income of domestic international sales corporations (DISC)	1,390	1,185	1,075	1,050	1,075	1,110						
Deferral of income of controlled foreign corporations	430	345	375	390	420	455						
<i>General science, space, and technology:</i>												
Expensing of research and development expenditures	2,165	2,370	2,360	2,425	2,485	2,535	105	120	125	125	130	135
Credit for increasing research activities	615	650	660	305	65	25	30	35	40	30	5	(²)
Suspension of regulations relating to allocation under section 861 of research and experimental expenditures	120	60	(²)									
<i>Energy:</i>												
Expensing of exploration and development costs:												
Oil and gas	660	440	590	740	835	895	875	800	815	855	900	950
Other fuels	30	30	35	35	40	40						
Excess of percentage over cost depletion:												
Oil and gas	375	430	445	465	510	555	1,425	1,275	1,305	1,410	1,505	1,625
Other fuels	325	350	355	380	410	440	15	15	15	15	15	20
Capital gains treatment of royalties from coal	35	40	40	45	50	55	140	145	160	175	190	205

[illegible]

TAX EXPENDITURE ESTIMATES BY FUNCTION—Continued

[Fiscal years, in millions of dollars]

Function	Corporations						Individuals				
	1983	1984	1985	1986	1987	1988	1983	1984	1985	1986	1987
Agriculture:											
Expensing of certain capital outlays	85	90	95	100	100	105	475	495	510	530	545
Capital gains treatment of certain income	30	35	35	40	40	45	455	475	500	530	545
Deductibility of patronage dividends and certain other items of cooperatives	950	980	1,010	1,040	1,075	1,110	-390	-400	-410	-425	-435
Exclusion of certain cost-sharing payments							50	45	40	30	25
Commerce and housing:											
Dividend exclusion							445	435	440	450	460
Reinvestment of dividends in stock of public utilities							365	415	450	230	
Net interest exclusion									1,110	3,095	3,480
Exclusion of interest on State and local government industrial development bonds	2,355	2,790	3,265	3,875	4,385	4,615	570	675	800	985	1,180
Exclusion of interest on certain savings certificates							2,355	550			
Exemption of credit union income	170	185	200	220	240	260					
Exclusion of interest on life insurance savings							4,805	5,170	5,805	6,640	7,590
Excess bad debt reserves of financial institutions	335	575	785	930	1,060	1,030					
Deductibility of nonmortgage interest in excess of investment income							7,735	8,160	8,815	9,590	10,550
Deductibility of mortgage interest on owner-occupied homes							25,065	27,945	30,130	32,785	35,305
Deductibility of property tax on owner-occupied homes							8,765	9,535	10,480	11,710	13,215

Exclusion of interest on State and local government housing bonds for owner-occupied housing	1,060	1,190	1,190	1,145	1,105	1,070	450	485	475	445	415	385
Exclusion of interest on State and local government housing bonds for rental housing	585	735	880	1,035	1,185	1,345	285	355	430	510	585	665
Deferral of capital gains on home sales							3,770	4,895	5,625	6,000	6,480	7,030
Exclusion of capital gains on homes sales for persons age 55 and over							1,255	1,630	1,875	2,000	2,160	2,345
Depreciation on rental housing in excess of straightline	120	155	165	170	180	185	575	665	720	760	795	820
Depreciation on buildings other than rental housing in excess of straightline	175	200	215	240	265	295	150	165	185	210	230	250
Accelerated depreciation on equipment other than leased property	9,510	15,865	18,860	17,445	14,110	13,890	1,015	2,460	2,845	2,825	2,255	1,915
Safe harbor leasing:												
Accelerated depreciation and deferral												
Investment credit	1,745	1,885	1,635	1,285	1,040	525						
Amortization of business startup costs	1,625	915	705	710	515	280						
Capital gains other than agriculture, timber, iron ore and coal	15	20	25	30	35	40	105	160	230	285	315	355
Capital gains at death	1,770	2,075	2,130	2,305	2,475	2,695	14,955	14,320	15,365	16,440	17,590	18,820
Reduced rates on the first \$100,000 of corporate income							3,975	3,565	3,665	3,920	4,195	4,490
Investment credit, other than ESOPs, rehabilitation of structures, reforestation and leasing	5,690	6,525	7,025	8,060	8,765	9,090						
Transportation:												
Amortization of motor carrier operating rights	9,965	12,315	16,075	19,870	21,650	22,860	3,220	3,350	3,615	3,945	4,245	4,595
Deferral of tax on shipping companies	70	70	50	15	5	(*)	5	5	5	5	(*)	
Exclusion of interest on State and local government mass transit bonds	30	40	40	45	45	45						
Community and regional development:												
Five-year amortization for housing rehabilitation	45	65	75	75	65	75	15	25	20	15	10	20
Investment credit for rehabilitation of structures other than historic structures	20	25	25	25	25	25	30	35	35	35	35	35
Education, training, employment, and social services	175	200	185	195	215	235	160	165	160	165	180	200

TAX EXPENDITURE ESTIMATES BY FUNCTION—Continued

[Fiscal years, in millions of dollars]

Function	Corporations						Individuals					
	1983	1984	1985	1986	1987	1988	1983	1984	1985	1986	1987	1988
Exclusion of scholarship and fellowship income.....							415	375	395	410	435	460
Exclusion of interest on State and local government student loan bonds.....							70	100	125	155	190	225
Parental personal exemption for students age 19 or over.....	150	200	260	320	390	460	995	950	885	895	905	920
Exclusion of employee meals and lodging (other than military).....							680	725	795	870	945	1,030
Employer educational assistance.....							40	20				
Exclusion of contributions to prepaid legal services plans.....							25	25	10			
Exclusion for employer provided child care							10	25	55	85	120	155
Tax credit for ESOPs.....	1,250	1,375	1,875	2,235	2,330	950						
Deductibility of charitable contributions (education).....	280	345	360	415	480	525	495	495	580	735	660	615
Deductibility of charitable contributions, other than education and health.....	350	425	445	515	590	645	6,795	6,765	7,930	10,030	9,030	8,370
Credit for child and dependent care expenses							1,520	1,765	2,190	2,465	2,765	3,160
Targeted jobs credit.....	215	395	355	155	30	5	75	70	30	(2)		
Deduction for two-earner married couples							3,555	5,835	6,350	6,935	7,600	8,460
Deduction for adoption expenses.....							10	10	10	10	15	15
Health:												
Exclusion of employer contributions for medical insurance premiums and medical care.....							18,645	21,300	24,280	27,680	31,555	35,975
Deductibility of medical expenses.....							3,105	2,630	3,070	3,370	3,740	4,165
Exclusion of interest on State and local government hospital bonds.....	795	960	1,115	1,265	1,420	1,580	385	470	545	625	700	780
Deductibility of charitable contributions (health).....	175	215	225	255	295	325	995	990	1,160	1,470	1,320	1,225

	10	15	15	10	
Tax credit for orphan drug research					
Income security:					
Exclusion of social security benefits:					
Disability insurance benefits	1,690	1,660	1,695	1,755	1,840
OASI benefits for retired workers	15,685	16,680	18,070	19,640	21,275
Benefits for dependents and survivors	3,765	3,870	4,095	4,355	4,630
Exclusion of railroad retirement system benefits					
Exclusion of workmen's compensation benefits	780	765	765	745	755
Exclusion of special benefits for disabled coal miners	1,870	2,090	2,395	2,755	3,170
Exclusion of untaxed unemployment insurance benefits	170	165	165	160	160
Exclusion of public assistance benefits	3,260	3,020	2,585	2,405	2,265
Exclusion of disability pay	430	430	440	455	470
Net exclusion of pension contributions and earnings:	145	135	130	130	130
Employer plans	49,700	56,550	66,365	78,310	92,405
Plans for self-employed	1,065	1,050	1,070	1,115	1,165
Individual retirement plans	2,695	3,180	3,705	4,240	4,745
Exclusion of other employee benefits:					
Premiums on group term life insurance	2,100	2,250	2,465	2,715	2,985
Premiums on accident and disability insurance	115	120	125	130	135
Additional exemption for the blind	35	35	35	35	35
Additional exemption for the elderly	2,365	2,410	2,570	2,720	2,870
Tax credit for the elderly	135	135	135	135	135
Deductibility of casualty and theft losses	575	380	470	520	590
Earned income credit ⁴	385	330	290	215	155
Veterans benefits and services:					
Exclusion of veterans disability compensation	1,820	1,830	1,950	1,995	2,070
Exclusion of veterans pensions	310	290	280	275	275
Exclusion of GI bill benefits	130	130	115	100	90
General government:					
Credits and deductions for political contributions	190	200	220	220	230
General purpose fiscal assistance:					

TAX EXPENDITURE ESTIMATES BY FUNCTION¹—Continued

[Fiscal years, in millions of dollars]

Function	Corporations						Individuals					
	1983	1984	1985	1986	1987	1988	1983	1984	1985	1986	1987	1988
Exclusion of interest on general purpose State and local government debt.....	6,985	7,850	8,695	9,530	10,370	11,280	3,435	3,870	4,295	4,715	5,130	5,580
Deductibility of nonbusiness State and local government taxes other than on owner-occupied homes.....							20,060	21,770	26,605	29,970	34,125	39,010
Tax credit for corporations receiving income from doing business in U.S. possessions.....	1,350	1,075	1,135	1,240	1,375	1,525	.....	.....	.....	.....	.....	.....
<i>Net interest:</i>												
Deferral of interest on savings bonds.....							50	160	225	290	355	410

¹ All estimates are based on the tax law enacted through the 97th Congress.

² Less than \$2,500,000. All estimates have been rounded to the nearest \$5 million.

³ In addition, the exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts, net of the income tax effect, of approximately \$40 million for 1983, \$60 million for 1984, \$80 million for 1985, \$95 million for 1986, and \$110 million for 1987 and 1988.

⁴ The figures in the table indicate the effect of the earned income credit on receipts. The increase in outlays is: \$1,197 million in 1983, \$1,119 million in 1984, \$1,032 million in 1985, \$1,004 million in 1986, \$968 million in 1987, and \$910 million in 1988.

SUM OF THE EXPENDITURE ITEMS BY TYPE OF TAXPAYER, FISCAL YEARS 1983-88

[In millions of dollars]

Fiscal year	Corporations and individuals	Corporations	Individuals
1983.....	295,280	56,225	239,055
1984.....	327,455	67,915	259,540
1985.....	369,330	77,475	291,855
1986.....	411,575	83,210	328,365
1987.....	446,725	84,600	362,125
1988.....	490,850	86,495	404,355

NOTE.—These totals represent the mathematical sum of the estimated fiscal year effect of each of the tax expenditure items included in the table. The limitations on the use of the totals are explained in the text.

Source: Staffs of the Joint Committee on Taxation and the Treasury Department.

Chapter V. SPENDING

INTRODUCTION

This chapter provides details on the Committee's spending recommendations for each of the 21 functional areas of the budget.

Each functional section contains the following material:

- A listing of the major national needs addressed by Federal activities in the function.
- A table showing for fiscal years 1983-88 the baseline used by the Committee in arriving at its spending recommendations and the Committee's spending recommendations.
- A narrative explanation of the Committee's spending recommendations.
- A table showing historical spending information for the function.

THE BASELINE

The "baseline" has been prepared by the Congressional Budget Office (CBO) using the economic forecast contained in the CBO annual report to the Budget Committees and CBO's technical estimating methodology. The baseline for non-defense programs is the level that would occur if programs and policies that were enacted as of the end of the 97th Congress were continued unchanged through the projection period with all programs adjusted for inflation so that existing real levels of activity are maintained. In the case of national defense programs, the baseline is the level contained in the First Budget Resolution for FY 1983, adopted by Congress in June 1982, extended through FY 1988. The national defense baseline for FY 1983 is the level enacted as of the end of the 97th Congress.

The baseline is shown as of the end of the 97th Congress so that actions taken by Congress during the present session can be measured against a beginning benchmark. The baseline for fiscal years 1984-88 therefore does not include actions already completed by the Congress during the present session, such as the emergency jobs supplemental appropriation bill (Public Law 98-8) and the Social Security Act amendments (Public Law 98-21). These actions already completed by the Congress are, however, reflected in the Committee recommendation.

The baseline as shown in this report does not include recent re-estimates by CBO of the effect of the existing PIK and dairy price support programs in function 350, agriculture. These recent re-estimates are, however, reflected in the Committee recommendation.

NEW BUDGET FUNCTIONS

In compliance with section 347 of the Social Security Act amendments, the Committee recommendation includes the establishment of two new budget functions—function 570, medical insurance, and function 650, social security—to set forth separately within the budget the medicare and social security programs. For comparability, the baseline estimates and historical data tables have been similarly adjusted.

NET INTEREST

In this year's budget, the former "function 900, interest" has been redesignated "function 900, net interest" to reflect more clearly the Government's interest transactions with the public. Previously, interest paid by the Federal Government to the trust funds which invest balances in Federal securities was netted out (to avoid double counting) in function 950, undistributed offsetting receipts. This year the netting occurs in the interest function itself to keep all interest transactions together. This change was initially made in the President's FY 1984 budget and has been incorporated into the Committee's recommendations. The baseline estimates and the historical data tables have been similarly adjusted.

Table 1

SUMMARY OF COMMITTEE SPENDING RECOMMENDATIONS BY FUNCTION

[in billions of dollars]

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
050: National Defense.....	BA	244.1	267.0	295.5	334.8	372.1	410.4
	0	214.3	241.5	270.7	300.0	331.5	363.6
150: International Affairs.....	BA	24.9	18.2	16.5	15.9	16.9	17.7
	0	11.5	12.7	12.8	12.8	12.7	12.4
250: General Science, Space, and Technology.....	BA	7.9	8.5	8.5	8.4	8.4	8.5
	0	7.7	8.2	8.5	8.4	8.4	8.4
270: Energy.....	BA	4.0	3.9	3.6	3.2	3.1	3.5
	0	4.6	4.1	2.9	2.7	2.9	3.0
300: Natural Resources and Environment.....	BA	12.5	12.0	12.2	12.5	12.8	13.0
	0	12.8	12.5	12.6	12.2	12.1	12.3
350: Agriculture.....	BA	24.2	11.6	14.0	13.2	13.7	14.0
	0	24.0	11.4	12.3	13.1	13.6	13.9
370: Commerce and Housing Credit.....	BA	5.2	5.9	6.5	6.5	8.0	8.3
	0	2.7	1.8		-0.3	1.2	1.7

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SUMMARY OF COMMITTEE SPENDING RECOMMENDATIONS BY FUNCTION—Continued

[in billions of dollars]

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
400: Transportation.....	BA	26.8	27.7	28.4	29.2	29.8	30.3
	0	22.1	25.9	26.9	27.8	28.6	28.6
450: Community and Regional Development.....	BA	8.3	6.6	7.1	7.1	7.1	7.1
	0	7.9	8.1	8.2	7.6	7.5	7.4
500: Education, Training, Employment, and Social Services.....	BA	28.0	30.8	27.5	27.5	27.4	27.4
	0	26.8	27.0	27.4	27.4	27.3	27.5
550: Health.....	BA	25.1	31.8	35.0	37.8	40.9	44.3
	0	29.6	31.8	34.5	37.2	40.1	43.3
570: Medical Insurance.....	BA	46.1	61.4	69.4	79.1	87.4	95.2
	0	53.1	60.3	68.3	75.6	85.7	97.1
600: Income Security.....	BA	121.7	126.0	127.5	131.4	135.5	140.1
	0	110.2	104.1	105.5	108.6	112.1	116.3
650: Social Security.....	BA	184.1	174.9	194.7	211.0	226.7	256.7
	0	167.6	177.1	188.4	200.8	213.7	227.8
700: Veterans Benefits and Services.....	BA	25.2	25.7	26.8	27.3	27.8	28.2
	0	24.5	25.7	26.4	26.7	27.2	27.6

750: Administration of Justice.....	BA	5.2	6.0	5.8	5.9	6.7	6.5
	0	5.1	6.0	5.9	5.8	6.6	6.4
800: General Government.....	BA	5.6	5.7	6.0	6.2	6.3	6.3
	0	5.7	5.7	5.8	5.9	6.0	6.2
850: General Purpose Fiscal Assistance.....	BA	6.4	7.1	7.2	7.5	7.9	8.2
	0	6.4	7.0	7.1	7.5	7.8	8.1
900: Net Interest.....	BA	87.6	95.3	102.1	104.3	106.8	107.6
	0	87.6	95.3	102.1	104.3	106.8	107.6
920: Allowances.....	BA	0.8	0.6	1.9	3.2	4.6	6.0
	0	0.9	0.6	2.0	3.4	4.9	6.4
950: Undistributed Offsetting Receipts.....	BA	-18.0	-17.9	-18.7	-23.5	-22.0	-22.2
	0	-18.0	-17.9	-18.7	-23.5	-22.0	-22.2
Total.....	BA	875.7	908.8	981.5	1,048.5	1,127.9	1,217.1
	0	807.1	848.9	909.6	964.0	1,034.7	1,103.4

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Summary Table 2

SUMMARY OF BASELINE SPENDING BY FUNCTION

[In billions of dollars]

	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
050: National Defense.....	243.9	278.3	322.4	350.0	373.0	398.0
BA.....	0	242.1	277.7	310.0	333.0	358.0
150: International Affairs.....	24.1	18.3	17.3	17.2	18.6	19.8
BA.....	0	12.4	12.8	13.1	13.3	13.3
250: General Science, Space, and Technology.....	7.9	8.1	8.1	8.2	8.5	8.8
BA.....	0	7.7	8.1	8.2	8.3	8.7
270: Energy.....	3.9	4.1	4.1	3.9	4.2	5.1
BA.....	0	4.1	3.3	3.5	4.0	4.4
300: Natural Resources and Environment.....	11.5	11.7	11.8	12.2	12.4	12.8
BA.....	0	11.7	12.2	12.0	11.8	12.1
350: Agriculture.....	21.2	13.7	15.0	14.3	14.8	15.3
BA.....	0	13.5	13.3	14.2	14.7	15.3
370: Commerce and Housing Credit.....	4.8	5.9	6.6	6.8	8.5	9.0
BA.....	0	1.7	0.1	-0.1	1.6	2.2

400: Transportation	BA	26.6	27.9	29.0	30.2	31.1	32.0
	0	21.9	25.8	27.1	28.3	29.5	30.2
450: Community and Regional Development	BA	6.8	7.2	8.4	8.6	8.9	9.1
	0	7.7	7.9	8.2	8.5	8.7	8.8
500: Education, Training, Employment, and Social Services	BA	27.3	31.2	29.1	30.2	31.2	32.4
	0	26.5	27.0	28.2	29.2	30.2	31.5
550: Health	BA	24.8	31.8	35.6	38.3	41.7	45.1
	0	29.4	31.6	35.1	37.6	40.8	44.2
570: Medical Insurance	BA	42.7	61.1	68.5	78.4	86.7	95.2
	0	53.0	61.0	69.3	79.5	92.5	105.4
600: Income Security	BA	119.1	122.0	126.3	131.4	135.3	140.6
	0	107.7	103.3	104.9	109.5	112.6	117.5
650: Social Security	BA	163.3	162.5	180.7	197.2	210.6	227.0
	0	189.3	181.0	192.8	205.5	218.7	233.4
700: Veterans Benefits and Services	BA	24.9	25.8	26.1	26.4	26.7	27.0
	0	24.5	25.5	25.8	26.1	26.3	26.7

SUMMARY OF BASELINE SPENDING BY FUNCTION—Continued

(In billions of dollars)

	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
750: Administration of Justice.....	5.1	5.4	5.5	5.6	5.7	5.8
800: General Government.....	5.1	5.4	5.5	5.5	5.6	5.7
850: General Purpose Fiscal Assistance.....	5.5	5.5	5.8	6.0	6.2	6.3
900: Net Interest.....	5.7	5.4	5.6	5.7	5.9	6.2
920: Allowances.....	6.4	7.1	7.2	7.5	7.9	8.2
950: Undistributed Offsetting Receipts.....	6.4	7.0	7.1	7.5	7.8	8.1
Total.....	87.3	96.0	106.9	114.7	123.6	131.7
	87.3	96.0	106.9	114.7	123.6	131.7
	0.8	1.7	3.2	4.9	6.6	8.5
	0.9	1.7	3.4	5.2	7.1	9.0
	-18.0	-17.4	-18.8	-23.6	-22.2	-22.4
	-18.0	-17.4	-18.8	-23.6	-22.2	-22.4
	839.7	907.7	998.8	1,068.5	1,140.0	1,215.3
	800.9	854.8	928.4	1,000.2	1,073.8	1,149.9

Summary Table 3
SUMMARY OF PRESIDENT'S BUDGET REQUEST (INCLUDING APRIL UPDATE) AS RE-ESTIMATED BY CBO
[in billions of dollars]

	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
050: National Defense..... BA	245.0	280.2	329.4	364.3	396.4	432.1
0.....	214.3	244.7	282.2	321.5	357.5	389.8
150: International Affairs..... BA	24.9	18.2	16.5	15.8	16.6	17.5
0.....	11.6	12.7	12.8	12.9	12.6	12.4
250: General Science, Space, and Technology..... BA	7.9	8.5	8.4	7.7	7.7	6.9
0.....	7.7	8.2	8.4	7.9	7.7	7.0
270: Energy..... BA	3.9	3.2	3.4	3.2	3.4	3.9
0.....	4.3	3.9	2.9	2.9	2.9	3.2
300: Natural Resources and Environment..... BA	12.2	9.2	9.5	9.5	9.4	9.5
0.....	12.3	10.5	10.1	9.9	9.5	9.6
350: Agriculture..... BA	24.2	11.1	12.8	11.1	11.3	11.7
0.....	23.9	10.8	11.0	11.1	11.3	11.7

SUMMARY OF PRESIDENT'S BUDGET REQUEST (INCLUDING APRIL UPDATE) AS RE-ESTIMATED BY CBO—Continued

[In billions of dollars]

	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
370: Commerce and Housing Credit.....	5.3	7.8	5.9	4.8	4.8	4.5
	0	1.3	-1.7	-2.0	-1.4	-1.8
400: Transportation.....	26.9	27.7	28.3	29.2	29.0	29.5
	22.0	25.1	25.9	26.9	27.6	27.8
450: Community and Regional Development.....	8.7	6.1	6.6	6.6	6.5	6.5
	7.8	8.0	8.2	7.3	6.9	6.7
500: Education, Training, Employment, and Social Services.....	26.7	25.4	24.8	24.7	24.6	24.6
	27.1	25.5	24.8	24.6	24.5	24.6
550: Health.....	71.0	92.0	101.2	112.4	122.7	132.5
	82.7	90.3	99.5	107.9	119.4	132.0
600: Income Security.....	303.8	289.2	313.8	339.5	365.8	396.1
	277.9	278.8	290.9	307.5	322.8	341.3
700: Veterans Benefits and Services.....	24.9	25.9	26.3	26.9	27.4	27.9
	24.5	25.4	25.9	26.4	26.8	27.5

750: Administration of Justice.....	BA	5.2	5.5	5.5	5.4	5.5	5.7
	0	5.1	5.5	5.5	5.5	5.5	5.6
800: General Government	BA	5.8	5.9	6.3	6.4	6.5	6.6
	0	5.9	5.9	6.0	6.1	6.2	6.5
850: General Purpose Fiscal Assistance.....	BA	6.4	6.8	6.5	6.6	6.7	6.8
	0	6.4	6.8	6.5	6.6	6.7	6.8
900: Net Interest.....	BA	87.6	97.2	106.6	111.2	115.5	117.8
	0	87.6	97.2	106.6	111.2	115.5	117.8
920: Allowances.....	BA	0.8	0.9	3.9	6.1	8.2	10.4
	0	0.9	1.0	4.0	6.3	8.6	10.9
950: Undistributed Offsetting Receipts.....	BA	-18.2	-18.9	-21.8	-26.7	-25.4	-25.7
	0	-18.2	-18.9	-21.8	-26.7	-25.4	-25.7
Total	BA	873.0	902.0	994.0	1,064.9	1,142.7	1,224.8
	0	807.3	842.6	907.7	973.9	1,045.3	1,113.6

Summary Table 4
HISTORICAL OUTLAYS BY FUNCTION
[in billions of dollars]

	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
050: National Defense.....	89.4	97.5	105.2	117.7	135.9	159.8	187.4
150: International Affairs.....	5.6	4.8	5.9	6.1	10.7	11.1	10.0
250: General Science, Space, and Technology.....	4.4	4.7	4.7	5.0	5.7	6.4	7.1
270: Energy.....	3.1	4.2	5.9	6.9	6.3	10.3	4.7
300: Natural Resources and Environment.....	8.1	10.0	10.9	12.1	13.8	13.5	12.9
350: Agriculture.....	2.5	5.5	7.7	6.2	4.8	5.6	14.9
370: Commerce and Housing Credit.....	3.8	0.1	3.3	2.6	7.8	3.9	3.9
400: Transportation.....	13.4	14.6	15.4	17.5	21.1	23.4	20.6
450: Community and Regional Development.....	4.8	6.3	11.1	9.5	10.1	9.4	7.2
500: Education, Training, Employment, and Social Services.....	18.7	21.0	26.5	29.7	30.8	31.4	26.3
550: Health.....	15.6	17.3	18.4	20.5	23.2	26.7	27.4
570: Medical Insurance.....	15.9	19.3	22.8	26.4	32.1	39.2	46.6
600: Income Security.....	54.7	54.0	54.0	57.6	76.0	87.1	94.2

650: Social Security	72.7	83.9	92.2	102.6	117.1	138.0	154.1
700: Veterans Benefits and Services	18.4	18.0	19.0	19.9	21.2	23.0	24.0
750: Administration of Justice	3.3	3.6	3.8	4.2	4.6	4.7	4.7
800: General Government	2.9	3.2	3.7	4.1	4.5	4.6	4.7
850: General Purpose Fiscal Assistance	7.2	9.5	9.6	8.4	8.6	6.9	6.4
900: Net Interest	26.7	29.9	35.4	42.6	52.5	68.7	84.7
950: Undistributed Offsetting Receipts	-6.9	-6.9	-7.2	-8.5	-9.9	-16.5	-13.3
Total	364.5	400.5	448.4	491.0	576.7	657.2	728.4

Summary Table 5

SUMMARY OF FEDERAL AID TO STATE AND LOCAL GOVERNMENTS IN COMMITTEE RECOMMENDATION

[in billions of dollars]

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
050: National Defense.....	BA	0.1	0.2	0.2	0.3	0.4	0.5
	0	0.1	0.1	0.1	0.1	0.2	0.3
270: Energy.....	BA						
	0	0.6	0.5	0.3	0.3	0.3	0.3
300: Natural Resources Environment.....	BA	3.5	3.7	3.9	4.1	4.2	4.4
	0	4.3	4.0	4.4	4.1	3.8	4.0
350: Agriculture.....	BA	1.9	1.0	1.2	1.2	1.2	1.3
	0	1.8	1.0	1.1	1.2	1.2	1.2
370: Commerce and Housing Credit.....	BA	(*)	(*)	(*)	(*)	(*)	(*)
	0	(*)	(*)	(*)	(*)	(*)	(*)
400: Transportation.....	BA	18.3	19.2	20.0	20.7	21.3	21.8
	0	13.6	17.5	18.3	19.2	20.1	20.2
450: Community and Regional Development.....	BA	5.8	4.2	4.5	4.4	4.4	4.4
	0	5.2	5.4	5.4	4.8	4.6	4.5
500: Education, Training, Employment, and Social Services.....	BA	17.4	20.4	17.5	17.7	17.8	17.9
	0	17.1	17.3	17.5	17.7	17.8	17.9
550: Health.....	BA	16.1	23.0	25.4	27.5	30.0	32.7
	0	20.6	22.8	25.3	27.5	29.9	32.6
600: Income Security.....	BA	26.5	29.3	29.5	30.1	30.7	31.3
	0	25.0	25.6	26.1	27.0	27.8	28.7

700: Veterans Benefits and Services.....	BA	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
750: Administration of Justice.....	BA	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1
	0	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1
800: General Government.....	BA	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
	0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
850: General Purpose Fiscal Assistance.....	BA	6.3	7.0	7.1	7.4	7.4	7.8	8.0	8.0
	0	6.3	6.9	7.0	7.4	7.4	7.7	7.9	7.9
Total.....	BA	96.3	108.5	109.6	113.6	118.1	122.6		
	0	95.0	101.5	106.0	109.6	113.8	118.1		

Function 050: NATIONAL DEFENSE

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Protect America's people, its institutions, and its lands from foreign aggression.

—Improve the current overall military balance between the United States and its allies, and the Soviet Union and its allies.

—Deter a nuclear attack on the United States, or its forces, or on other nations whose security is important to us, and assure that should deterrence fail, the United States can respond to the threat at all levels of conflict including inflicting unacceptable damage to the Soviet Union in retaliation.

—Maintain, with our allies sufficient military power to counter aggression anywhere in the world.

—Seek equitable and verifiable international agreements to limit and reduce all armaments, to prevent proliferation of nuclear weapons technology, to settle disputes by peaceful means, and to strengthen international stability.

FUNCTION 050 PROJECTIONS

(In billions of dollars)

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	BA	243.9	278.3	322.4	350.0	373.0	398.0
	O	214.2	242.1	277.7	310.0	333.0	358.0
Committee recommendation	BA	244.1	267.0	299.5	334.8	372.1	410.4
	O	214.3	241.5	270.7	300.0	331.5	363.6

COMMITTEE RECOMMENDATION

The Committee recommends \$267.0 billion in budget authority and \$241.5 billion in outlays for this function in FY 1984.

The Committee recognizes the importance of maintaining a strong national defense and realizes that in order to accomplish that objective, the budget must do two things. It must provide adequate funding for current operations, including readiness and sustainability initiatives; and it must also compensate for past underfunding of equipment modernization.

In the past, the Budget Committee has been in the forefront of the effort to obtain adequate funding for rebuilding our Nation's defenses. The broad support of the effort can be measured by the fact that budget authority for the Department of Defense increased by 35 percent after inflation during the FY 1980 to FY 1983 period.

The process of rebuilding our Nation's defense continues in FY 1984. The Committee recommendation would provide for 5 percent real growth in budget authority for 1984. The recommendation assumes a delay in cost-of-living adjustments for military retirees consistent with that for other retirees.

The Committee received a proposal to increase defense over the President's request, but no member recommended acceptance of the proposal.

FUNCTION 050 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Military personnel.....	25.0	25.7	27.1	28.4	30.8	36.4	42.3
Retired military personnel.....	7.3	8.2	9.2	10.3	11.9	13.7	14.9
Operation and maintenance.....	27.8	30.6	33.6	36.4	44.8	51.9	59.7
Procurement.....	16.0	18.2	20.0	25.4	29.0	35.2	43.3
Research and development.....	8.9	9.8	10.5	11.2	13.1	15.3	17.7
Atomic energy defense activities.....	1.6	1.9	2.1	2.5	2.9	3.4	4.3
All other.....	2.8	3.1	2.7	3.5	3.4	3.8	5.2
Total function.....	89.4	97.5	105.2	117.7	135.9	159.8	187.4
Nominal growth (percent).....	4	9	8	12	15	18	17
Real growth (percent).....	-2	1	0.3	4	3	5	8

Function 150: INTERNATIONAL AFFAIRS

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Assist our domestic economy by strengthening international economic institutions and promoting trade.

—Support the security and economic and political stability of allies and friendly governments.

—Promote a stable international environment that will reduce conflicts, encourage worldwide economic progress, and bring greater respect for human rights.

—Advance American foreign policy through diplomacy and improved communication between the United States and other nations.

—Support the long-term development of poor countries.

FUNCTION 150 PROJECTIONS

(In billions of dollars)

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	BA	24.1	18.3	17.3	17.2	18.6	19.8
	0	11.3	12.4	12.8	13.1	13.3	13.3
Committee recommendation.....	BA	24.9	18.2	16.5	15.9	16.9	17.7
	0	11.5	12.7	12.8	12.8	12.7	12.4

COMMITTEE RECOMMENDATION

The Committee recommends \$18.2 billion in budget authority and \$12.7 billion in outlays for this function in FY 1984.

The Committee recommendation assumes that appropriations for discretionary programs will be held within the overall total for the President's request. The Committee supports a vigorous program of export promotion, and notes that the President's FY 1984 request for the Export-Import Bank reflects lower projections of direct loan activity as a result of a decline in eligible applicants among American exporters. The mark assumes the President's estimate for Eximbank direct loans with the understanding that a supplemental, described in the FY 1984 budget request, may be submitted later by

the President to meet predatory foreign financing practices or additional demand for funds.

In foreign assistance, the Committee recommendation assumes a balanced program of financial, economic, and military aid. The Committee notes the concerns of other committees in their March recommendation regarding the foreign military sales (FMS) program, both the administration's proposed decline in direct credits for the Middle East cited by the Appropriations Committee and the depletion of the foreign military sales guarantee reserve fund, cited by the Foreign Relations Committee. The Committee recommendations could accommodate an increase above the FY 1983 level for FMS direct credits for the Middle East. The Committee's recommendation on credit addresses the concern of the Foreign Relations Committee regarding FMS guarantees.

The Committee recommends \$24.9 billion in budget authority and \$11.5 billion in outlays for this function in the revised congressional budget for FY 1983. This is an increase of \$9 billion in budget authority above the existing ceiling for this function. Most of this increase in FY 1983 budget authority, almost \$8.5 billion, is associated with the President's recent supplemental request for the U.S. share of an increase of approximately 50 percent in the resources available to the International Monetary Fund.

The objective of this major revision of the FY 1983 budget resolution is to preserve an open and fair international trading system and to preserve and expand export-related jobs for American workers. The purposes of the International Monetary Fund are similar. Although not all Members support the IMF request as the appropriate vehicle to carry out this objective, the Committee supports the efforts of other committees with jurisdiction over IMF legislation to encourage more prudent overseas lending practices, and to ensure that any appropriations for the IMF will be used solely to strengthen the world economy and the U.S. domestic recovery. Under these circumstances, the Committee believes that its recommendation will not exempt banking institutions from their share of the risks associated with their current and future lending activities.

In summary, the FY 1983 recommendation would allow the Appropriations Committees and Congress to fund fully 99 percent of the President's supplemental request for this function: U.S. share of increased IMF and World Bank resources; security assistance; and foreign information and exchange activities.

FUNCTION 150 HISTORICAL DATA

(Outlays—billions of dollars)

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Foreign economic and financial assistance.....	2.7	2.8	2.7	3.0	3.7	4.2	3.9
International security assistance.....	1.8	1.6	2.4	2.3	2.8	3.1	3.1

FUNCTION 150 HISTORICAL DATA—Continued

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Diplomatic and foreign information activities.....	1.1	1.4	1.6	1.8	1.9	1.9	2.2
Export-Import Bank	0.9	0.3	-0.1	0.2	1.8	2.1	1.2
All other	-0.9	-1.3	-0.7	-1.2	0.5	-0.2	-0.4
Total function	5.6	4.8	5.9	6.1	10.7	11.1	10.0
Nominal growth (percent)	-19	-14	23	3	75	4	-10
Real growth (percent)	-23	-18	14	-5	62	-5	-16

Function 250: GENERAL SCIENCE, SPACE, AND TECHNOLOGY

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Expand scientific knowledge through support of basic research in all fields of science.

—Explore space to develop a greater understanding of the Earth, solar system and universe.

—Develop practical, economic and productive applications of space technology.

FUNCTION 250 PROJECTIONS

[In billions of dollars]

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	BA	7.9	8.1	8.1	8.2	8.5	8.8
	O	7.7	7.9	8.1	8.2	8.3	8.7
Committee recommendation.....	BA	7.9	8.5	8.5	8.4	8.4	8.5
	O	7.7	8.2	8.5	8.4	8.4	8.4

COMMITTEE RECOMMENDATION

The Committee recommends \$8.5 billion in budget authority and \$8.2 billion in outlays for this function in FY 1984.

The Committee recommendation assumes that funding for programs in this function will be increased to the level proposed by the administration, an increase of 7 percent over FY 1983. Within that increase, funding for National Science Foundation and Department of Energy basic research would increase by 19 percent. The National Aeronautics and Space Administration's civilian space programs would increase by 4 percent.

For fiscal years 1986-88, the Committee recommendation assumes a 5-percent annual real growth increase for the basic research activities of the National Science Foundation and Department of Energy and for the space science programs of the National Aeronautics and Space Administration. The Committee believes that a sustained commitment is necessary, not just a one-shot increase.

FUNCTION 250 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Science	1.0	1.1	1.2	1.3	1.4	1.5	1.6
Space shuttle	1.6	1.8	1.8	1.8	2.1	2.7	3.1
Other space activities	1.8	1.8	1.7	2.0	2.2	2.2	2.4
Total function	4.4	4.7	4.7	5.0	5.7	6.4	7.1
Nominal growth (percent)	10	7	0	6	14	12	11
Real growth (percent)	5	0	-6	-2	5	2	4

Function 270: ENERGY

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Mobilize the Nation's resources to protect the Nation's energy security and independence.

—Promote energy production and conservation through pricing policies that reflect the real cost of energy.

—Protect the Nation from being harmed by disruptions in energy supplies.

—Through long-term R & D, develop renewable sources of energy to sustain long-term economic growth.

FUNCTION 270 PROJECTIONS

[In billions of dollars]

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	BA	3.9	4.1	4.1	3.9	4.2	5.1
	O	4.5	4.1	3.3	3.5	4.0	4.4
Committee recommendation.....	BA	4.0	3.9	3.6	3.2	3.1	3.5
	O	4.6	4.1	2.9	2.7	2.9	3.0

COMMITTEE RECOMMENDATION

The Committee recommends \$3.9 billion in budget authority and \$4.1 billion in outlays for this function for FY 1984.

The Committee recommendation assumes that budget authority would be frozen at FY 1983 continuing resolution levels in all years. The emergency jobs appropriation of 1983 is factored in as a one-time adjustment to FY 1983 budget authority.

FUNCTION 270 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Energy supply	1.8	2.5	2.3	3.4	3.4	5.4	3.4
TVA	0.9	1.0	1.3	1.8	1.7	1.8	1.3

FUNCTION 270 HISTORICAL DATA—Continued

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Offsetting receipts	-0.2	-0.2	-0.6	-0.5	-1.5	-1.9	-1.8
Energy conservation	0.1	0.1	0.2	0.3	0.6	0.7	0.5
Strategic petroleum reserve			0.9	1.0	0.3	3.3	0.2
Energy information, policy and regulation	0.6	0.7	0.8	0.7	0.9	1.0	1.0
All other		0.1	1.0	0.3	0.9	1.3	0.1
Total function	3.1	4.2	5.9	6.9	6.3	10.3	4.7
Nominal growth (percent)	41	55	40	17	-9	63	-54
Real growth (percent)	38	26	31	8	-15	50	-57

Function 300: NATURAL RESOURCES AND ENVIRONMENT

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Protect the public health and the environment with special emphasis on abating pollution of the land, air and water through control of hazardous wastes, injurious pesticides, and toxic substances.

—Provide for balanced conservation and development of public land, water, timber, minerals, and other natural resources.

—Preserve natural areas, fish and wildlife.

—Improve our knowledge and understanding of the atmosphere, the Earth's structure, environment, and resources.

FUNCTION 300 PROJECTIONS

(In billions of dollars)

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	BA	11.5	11.7	11.8	12.2	12.4	12.8
	O	12.4	11.7	12.2	12.0	11.8	12.1
Committee recommendation.....	BA	12.5	12.0	12.2	12.5	12.8	13.0
	O	12.8	12.5	12.6	12.2	12.1	12.3

COMMITTEE RECOMMENDATION

The Committee recommends \$12.0 billion in budget authority and \$12.5 billion in outlays for this function in FY 1984.

The Committee recommendation assumes that programs in this function would be frozen at baseline levels, with several specific exceptions: EPA's superfund could increase to the level requested by the administration; EPA research and development activities could be increased over FY 1983; and funding could be provided for an American Conservation Corps beginning in FY 1983.

The Committee's recommendation would accommodate \$0.9 billion for activities in this function funded in the Emergency Jobs Act including water resource activities of the Soil Conservation Service, Bureau of Reclamation, and Corps of Engineers and for Forest Service and National Park Service programs.

The Committee recommendation would not require any reduction from current activity levels of any of the programs of the National Oceanic and Atmospheric Administration, including satellite systems and operations.

FUNCTION 300 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Water resources	2.8	3.2	3.5	3.9	4.3	4.2	4.0
Forest management	0.6	0.7	0.8	0.9	1.1	1.9	1.9
Recreational land acquisition	0.3	0.3	0.6	0.6	0.6	0.5	0.3
Operation of recreational resources	0.6	0.7	0.8	0.9	1.1	1.1	1.1
EPA construction grants	2.4	3.5	3.2	3.8	4.3	3.9	3.8
EPA research and regulatory programs	0.6	0.7	0.8	0.9	1.2	1.3	1.2
All other	0.8	0.7	1.2	1.0	1.2	0.6	0.6
Total function	8.1	10.0	10.9	12.1	13.8	13.5	12.9
Nominal growth (percent)	11	23	9	11	14	-2	-4
Real growth (percent)	6	16	2	2	5	-11	-11

Function 350: AGRICULTURE

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

- Assure sufficient agricultural production to meet domestic needs and export demands.
- Provide an adequate return to farmers.
- Ensure food price stability.
- Increase farm production and income through the conduct and application of research.
- Improve the efficiency and reliability of domestic and export agricultural marketing systems.

FUNCTION 350 PROJECTIONS

(In billions of dollars)

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	BA	21.2	13.7	15.0	14.3	14.8	15.3
	O	21.1	13.5	13.3	14.2	14.7	15.3
Committee recommendation.....	BA	24.2	11.6	14.0	13.2	13.7	14.0
	O	24.0	11.4	12.3	13.1	13.6	13.9

COMMITTEE RECOMMENDATION

The Committee recommends \$11.6 billion in budget authority and \$11.4 billion in outlays for this function in FY 1984.

The Committee recommendation assumes a freeze in funding at baseline levels, after adjustments for technical reestimates by CBO and passage of the Emergency Jobs Act, for agricultural programs. After development of the baseline for this function, final farmer signup data for the payment-in-kind program (PIK) became available and this data has been incorporated into the Committee recommendation. In addition, the administration announced a change in the implementation schedule for assessment provisions in the dairy program as the Committee deliberated its recommendations in this function. This decision, also, is incorporated in the Committee recommendation. These factors combine to reduce estimated spending in FY 1984 by \$2.1 billion in both budget authority and outlays.

The Committee assumes that discretionary programs of agricultural research and services increase based on inflation projections over the period. Within the discretionary accounts, the Committee recommendation could accommodate increased funding for agricultural research and development programs.

The Committee recommendation reaffirms actions taken through the Omnibus Reconciliation Act of 1982 to reduce funding for the dairy price support programs as reestimated by CBO for the recent administrative action to delay assessment implementation. For FY 1984, the Committee recommendation assumes savings of \$1.2 billion in the dairy program. Should the Congress fail to make changes in this program that yield these assumed savings, other program savings will be required.

FUNCTION 350 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
CCC farms price supports	0.7	3.5	5.5	3.8	2.7	4.0	11.7
Other farm income stabilization programs.....	0.9	1.0	1.0	1.1	0.7	—(*)	1.6
Agricultural research and services.....	0.9	1.0	1.1	1.4	1.3	1.5	1.6
Total function	2.5	5.5	7.7	6.2	4.8	5.6	14.9
Nominal growth (percent)	47	120	40	—19	—23	17	166
Real growth (percent)	44	108	30	—26	—30	7	149

* Less than \$50 million.

Function 370: COMMERCE AND HOUSING CREDIT

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Ensure that an adequate supply of mortgage credit is available nationally.

—Target credit to urban and rural areas and to prospective borrowers not well served by private credit markets.

—Maintain effective mail service at reasonable rates financed primarily by user charges.

—Support job development and a productive economy through assistance to and oversight of business.

FUNCTION 370 PROJECTIONS

(In billions of dollars)

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	BA	4.8	5.9	6.6	6.8	8.5	9.0
	O	2.3	1.7	0.1	-0.1	1.6	2.2
Committee recommendation.....	BA	5.2	5.9	6.5	6.5	8.0	8.3
	O	2.7	1.8	.....	-0.3	1.2	1.7

COMMITTEE RECOMMENDATION

The Committee recommends \$5.9 billion in budget authority and \$1.8 billion in outlays for this function in FY 1984.

The Committee recommendation assumes a one-time increase in budget authority and outlays in FY 1983 to accommodate the emergency jobs appropriations bill. During fiscal years 1984-88, the recommendation generally assumes that spending for discretionary programs will essentially be frozen at the FY 1983 appropriated levels provided before enactment of the jobs bill. The recommendation assumes that housing for the elderly and handicapped loans will be at the baseline level in fiscal years 1984 through 1988. The recommendation also assumes an additional \$0.1 billion in FY 1984 to finance Small Business Administration purchases of guaranteed loans expected to be in default.

FUNCTION 370 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Farmers Home rural housing programs.....	0.1	0.4	0.2	1.7	-0.1	1.2	
Government National Mortgage Association...	0.6	-1.1	0.2	0.2	1.4	1.1	1.5
Housing for the elderly and handicapped.....	-(*)		0.2	0.5	0.8	0.8	0.7
Federal Housing Administration mortgage insurance	1.2	0.5	0.4	0.2	0.2	0.2	-0.2
Administrative and insurance operations of Federal financial regulatory agencies.....	-0.6	-2.8	-1.0	-1.7	-0.3	-1.4	-2.1
Postal Service.....	1.7	2.3	1.8	1.8	1.7	1.3	0.7
Department of Commerce business support programs.....	0.4	0.4	0.5	0.6	1.2	0.8	0.7
Small Business Administration business support programs	0.3	0.5	0.7	0.7	0.9	0.8	1.0
All other	0.1	0.2	0.2	0.2	0.2	0.4	0.4
Total function	3.8	0.1	3.3	2.6	7.8	3.9	3.9
Nominal growth (percent).....	-32	-97	3,200	-21	300	-50	0
Real growth (percent).....	-35	-98	3,066	-29	179	-56	-7

* Less than \$50 million.

Function 400: TRANSPORTATION

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Develop and maintain a transportation system that meets the needs of commerce and the public.

—Assist in ensuring that the transportation system operates safely, reliably and efficiently.

—Ensure that Federal transportation policy and programs are consistent with the Nation's economic, energy, environmental, and social goals.

FUNCTION 400 PROJECTIONS

(In billions of dollars)

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	BA	26.6	27.9	29.0	30.2	31.1	32.0
	0	21.9	25.8	27.1	28.3	29.5	30.2
Committee recommendation	BA	26.8	27.7	28.4	29.2	29.8	30.3
	0	22.1	25.9	26.9	27.8	28.6	28.6

COMMITTEE RECOMMENDATION

The Committee recommends \$27.7 billion in budget authority and \$25.9 billion in outlays for this function in FY 1984.

The Committee recommendation assumes 2 percent nominal growth in budget authority for discretionary programs in FY 1984. The Committee recommendation could accommodate increased funding levels for airway facilities and equipment. The Committee recommendation assumes that mass transit operating assistance will be continued at the levels authorized by the 1982 Surface Transportation Assistance Act (STAA).

The Committee assumes that spending for contract authority programs, such as highways, airport improvement grants, and mass transit capital grants increase as authorized by the STAA and the 1982 Airport and Airway Improvement Act. The recommendation also includes spending resulting from the Emergency Jobs Act.

FUNCTION 400 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Federal-aid highways	6.4	6.0	5.9	6.9	8.8	8.8	7.8
Grants to Amtrak	0.4	0.7	0.7	0.8	0.8	0.5	0.7
Financial assistance to Conrail	0.3	0.7	0.7	0.7	0.6	0.2	(*)
Northeast corridor rail project		0.1	0.2	0.2	0.2	0.2	0.3
Urban mass transit programs	1.3	1.7	2.0	2.5	3.2	3.9	3.9
FAA operations	1.6	1.7	1.9	2.0	2.2	2.3	2.1
Airport/airways (trust fund) programs	0.5	0.6	0.8	0.8	0.9	0.8	0.7
NASA aeronautical research programs	0.3	0.3	0.4	0.4	0.5	0.5	0.6
Maritime construction and operating subsidies	0.5	0.6	0.5	0.5	0.6	0.5	0.6
Coast Guard operations and acquisitions	0.8	1.0	1.0	1.2	1.3	1.5	1.7
All other	1.3	1.2	1.3	1.5	1.8	3.8	2.2
Total function	13.4	14.6	15.4	17.5	21.1	23.4	20.6
Nominal growth (percent)	29	9	5	14	21	11	-12
Real growth (percent)	23	3	-2	4	11	0	-18

* Less than \$50 million.

Function 450: COMMUNITY AND REGIONAL DEVELOPMENT

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Promote the development, maintenance, or redevelopment of economically and socially viable neighborhoods in urban, suburban, and rural areas.

—Develop a partnership among Federal, State, and local governments and the private sector to assist in the stabilization and revitalization of economically depressed or declining areas.

—Provide relief to areas that suffer from natural disasters.

FUNCTION 450 PROJECTIONS

(In billions of dollars)

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	BA	6.8	7.2	8.4	8.6	8.9	9.1
	O	7.7	7.9	8.2	8.5	8.7	8.8
Committee recommendation.....	BA	8.3	6.6	7.1	7.1	7.1	7.1
	O	7.9	8.1	8.2	7.6	7.5	7.4

COMMITTEE RECOMMENDATION

The Committee recommends \$6.6 billion in budget authority and \$8.1 billion in outlays for this function in FY 1984.

The Committee recommendation assumes baseline funding for Farmers Home Administration (FmHA) rural development programs and Bureau of Indian Affairs (BIA) Indian programs. The recommendation incorporates spending resulting from the Emergency Jobs Act, including \$1.0 billion in additional budget authority for the community development block grant (CDBG) program in FY 1983. Funding for CDBG in FY 1984 and beyond would be frozen at the FY 1983 level, excluding the Emergency Jobs Act funding.

The SBA disaster loan program is assumed to need no additional budget authority in FY 1984 or beyond due to the current availability of large unobligated balances. The Committee recommendation assumes reauthorization of the SBA disaster loan provision requiring that agriculture disaster loans be operated through the FmHA.

Finally, the Committee recommendation assumes termination of the Appalachian Regional Commission (ARC) and the Economic Development Administration (EDA). All other discretionary programs within the function would be frozen at their FY 1983 appropriated levels.

FUNCTION 450 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Community development block grants.....	1.0	2.1	2.5	3.2	3.9	4.0	3.8
Urban development action grants.....				0.1	0.2	0.4	0.4
Other community development programs.....	1.8	1.2	0.7	0.7	0.8	0.7	0.4
Economic Development Administration.....	0.3	0.3	0.4	0.5	0.6	0.5	0.4
Local public works programs.....		0.6	3.1	1.7	0.4	0.1	(*)
Other area and regional development programs.....	1.2	1.4	1.4	1.7	2.1	2.1	2.3
SBA disaster loans.....	0.1	0.2	2.1	1.0	0.9	1.1	-0.3
Other disaster assistance programs.....	0.4	0.5	0.8	0.6	1.1	0.5	0.2
Total function.....	4.8	6.3	11.1	9.5	10.1	9.4	7.2
Nominal growth (percent).....	30	31	76	-14	6	-7	-23
Real growth (percent).....	72	26	63	-21	-3	15	-28

* Less than \$50 million.

Function 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

- Improve educational opportunities for disadvantaged and handicapped children.
- Provide financial assistance for postsecondary students.
- Support educational and cultural institutions and activities.
- Enhance training and employment opportunities for youth and adults.
- Support institutions and agencies regulating management-labor relationships and the gathering of labor statistics.
- Provide supportive services for groups such as the poor, the aged, and the handicapped to assist them in becoming self-sufficient.

FUNCTION 500 PROJECTIONS

[In billions of dollars]

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	BA	27.3	31.2	29.1	30.2	31.2	32.4
	O	26.5	27.0	28.2	29.2	30.2	31.5
Committee recommendation.....	BA	28.0	30.8	27.5	27.5	27.4	27.4
	O	26.8	27.0	27.4	27.4	27.3	27.5

COMMITTEE RECOMMENDATION

The Committee recommends \$30.8 billion in budget authority and \$27.0 billion in outlays for this function in FY 1984.

The Committee recommendation assumes that spending for most discretionary programs will be frozen at the FY 1983 baseline budget authority levels during FY 1984, with the exception of increases for compensatory education, vocational education, a new science and math education program, and the dislocated worker program. The Committee recommendation also assumes sufficient funds to advance-fund the Job Training Partnership Act, the employment service and impact aid. Because the Committee assumes no discretionary increases to compensate for the effect of inflation

in FY 1985 through FY 1988, there are substantial savings below the baseline in those years.

The Committee assumes no changes for any entitlement program in this function.

FUNCTION 500 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Compensatory education (includes chapter I of ECIA)	2.2	2.4	2.8	3.1	3.6	3.4	3.0
Education for the handicapped	0.2	0.2	0.3	0.6	0.8	1.0	1.1
Vocational education	0.7	0.7	0.7	0.8	0.9	0.7	0.8
Education impact aid	0.6	0.8	0.8	0.9	0.7	0.7	0.5
Other elementary, secondary education (includes chapter II of ECIA)	0.5	0.5	0.5	0.6	0.7	1.2	1.3
Guaranteed student loans	0.1	0.1	0.5	0.9	1.4	2.3	3.0
Other student assistance	2.3	2.6	2.5	2.9	3.7	4.5	3.5
CETA title VI and II-D, public service employment	2.4	2.8	5.8	5.0	3.7	0.9	0.0
Other CETA	2.7	2.8	3.8	4.5	5.2	6.8	4.1
The employment service	0.4	0.6	0.6	0.6	0.8	0.8	0.7
WIN	0.3	0.4	0.4	0.4	0.4	0.4	0.2
Social services block grant (title XX)	2.3	2.6	2.8	3.1	2.8	2.6	2.6
Community services program	0.5	0.5	0.6	0.6	0.6	0.6	0.3
Other social services (includes vocational rehabilitation and headstart)	1.7	2.0	2.2	2.9	2.7	3.3	3.1
All other	1.8	2.0	2.2	2.8	2.8	2.2	2.1
Total function	18.7	21.0	26.5	29.7	30.8	31.4	26.3
Nominal growth (percent)	18	12	26	12	4	2	-16
Real growth (percent)	13	6	18	3	-5	-9	-22

Function 550: HEALTH

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

- Provide health care services to the elderly, poor and disabled.
- Restrain inflation in Federal health care costs.
- Acquire knowledge regarding the causes, prevention, and treatment of diseases and promote preventive measures by which good health can be maintained.
- Support the education of students in the health professions, especially in primary care fields.

FUNCTION 550 PROJECTIONS

(In billions of dollars)

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	24.8	31.8	35.6	38.3	41.7	45.1
	O	29.4	31.6	35.1	37.6	40.8	44.2
Committee recommendation	BA	25.1	31.8	35.0	37.8	40.9	44.3
	O	29.6	31.8	34.5	37.2	40.1	43.3

COMMITTEE RECOMMENDATION

The Committee recommends \$31.8 billion in budget authority and \$31.8 billion in outlays for this function in FY 1984.

The Committee recommendation assumes an increase in budget authority to fund discretionary health service and research programs. It would freeze other discretionary accounts in the function at the current law level.

For medicaid, the Committee assumes the implementation of the President's proposed administrative changes and an extension of the medicaid growth targets and penalties enacted in the 1981 Reconciliation Act. The current ceiling for Puerto Rico is at \$45 million and the Committee mark accommodates an increase of \$30 million to a total of \$75 million.

FUNCTION 550 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Medicaid	8.6	9.9	10.7	12.4	14.0	16.9	17.4
Health care services	3.1	3.1	3.2	3.6	4.0	4.3	4.4
Health research	2.3	2.5	2.8	3.0	3.4	3.8	3.9
Education and training of the health care work force	1.0	1.0	0.9	0.6	0.7	0.8	0.7
All other	0.6	0.8	0.9	0.9	1.1	1.0	1.0
Total function	15.6	17.3	18.5	20.5	23.2	26.7	27.4
Nominal growth (percent)	21.9	10.9	6.9	10.8	13.2	15.1	2.6
Real growth (percent)	14.0	3.9	0.2	2.0	4.3	4.2	-4.1

Function 570: MEDICAL INSURANCE

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Provide hospital and medical insurance benefits to the elderly and disabled through the medicare program.

FUNCTION 570 PROJECTIONS

[In billions of dollars]

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	BA	42.7	61.1	68.5	78.4	86.7	95.2
	O	53.0	61.0	69.3	79.5	92.5	105.4
Committee recommendation.....	BA	46.1	61.4	69.4	79.1	87.4	95.2
	O	53.1	60.3	68.3	75.6	85.7	97.1

COMMITTEE RECOMMENDATION

The Committee recommends \$61.4 billion in budget authority and \$60.3 billion in outlays for this function in FY 1984.

The Committee recommendation incorporates savings from the prospective reimbursement provisions of the Social Security Amendments of 1983 (Public Law 98-21). The Committee also assumes reforms that would reduce the rate of growth of the supplemental medical insurance program.

FUNCTION 570 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Medicare.....	17.8	21.5	25.2	29.1	35.0	42.5	50.4
Medical premium collections.....	-1.9	-2.2	-2.4	-2.7	-2.9	-3.3	-3.8
Function total	15.9	19.3	22.8	26.4	32.1	39.2	46.6
Nominal growth (percent).....	7.4	21.4	18.1	15.8	21.6	22.1	18.9
Real growth (percent).....	0.5	13.7	10.7	6.6	12.0	10.5	11.0

Function 600: INCOME SECURITY

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Mitigate the loss of income people experience as a result of unemployment, retirement, disability, or death.

—Provide income support and help ensure an adequate diet for poor Americans, especially families with children, the elderly, and the disabled who cannot provide sufficiently for themselves.

—Help the poor meet problems arising from increasing energy costs.

—Promote decent and affordable housing for low-income individuals and families.

FUNCTION 600 PROJECTIONS

(In billions of dollars)

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	BA	119.1	122.0	126.3	131.4	135.3	140.6
	O	107.7	103.3	104.9	109.5	112.6	117.5
Committee recommendation	BA	121.7	126.0	127.5	131.4	135.5	140.1
	O	110.2	104.1	105.5	108.6	112.1	116.3

COMMITTEE RECOMMENDATION

The Committee recommends \$126.0 billion in budget authority and \$104.1 billion in outlays in this function in FY 1984.

The Committee recommendation incorporates action already taken by Congress in the Social Security Amendments of 1983 (Public Law 98-21). This legislation extends benefits for the long-term unemployed and increases benefit levels in the supplemental security income program.

The Committee recommendation assumes that spending for discretionary programs will be held to the FY 1983 current law levels during fiscal years 1984 through 1986, except for an increase in funding for the supplemental feeding program for women, infants, and children (WIC).

The Committee assumes a delay to January as early as feasible for the cost-of-living adjustments in Federal employee retirement

and disability, railroad retirement and disability, and several smaller retirement and disability programs. The Committee recommendation also assumes funding levels that ensure the solvency of the railroad retirement program and that railroad windfall benefits will be paid in full.

The Committee recommendation assumes enactment of the President's recommendations for the child support enforcement program and modification of the unemployment insurance program to strengthen work force attachment requirements. The Committee also assumes an increase in funding for the child nutrition programs.

FUNCTION 600 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Railroad retirement	3.5	3.8	4.0	4.3	4.7	5.3	5.7
Black lung	1.0	1.0	1.1	1.6	1.8	1.8	2.0
Federal employee retirement and disability	8.2	9.5	10.7	12.4	14.7	17.5	19.4
Unemployment compensation	19.5	15.3	11.8	10.7	18.0	19.7	23.8
Supplemental security income (SSI)	5.1	5.3	5.9	5.5	6.4	7.2	7.7
Aid to families with dependent children (AFDC)	5.8	6.4	6.6	6.6	7.3	8.5	8.0
Earned-income tax credit	0.8	0.9	0.9	0.8	1.3	1.3	1.2
Food stamps	5.6	5.4	5.5	6.8	9.1	11.3	11.0
Child nutrition programs	1.8	2.6	2.5	2.9	3.4	3.4	3.0
Subsidized housing	2.3	2.4	2.9	3.6	4.5	5.7	8.0
Low-income energy assistance		0.1	0.2	0.2	1.6	1.7	1.7
Refugee assistance	0.1	0.2	0.1	0.1	0.4	0.7	1.0
All other	1.1	1.2	1.8	2.1	2.7	2.9	1.7
Total function	54.7	54.0	54.0	57.6	76.0	87.1	94.2
Nominal growth (percent)	21.8	-1.3	0	6.7	31.9	14.6	8.2
Real growth (percent)	13.8	-8.2	-6.6	-3.2	16.1	3.2	0.6

Function 650: SOCIAL SECURITY

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Provide social security benefits so as to mitigate the loss of income people experience as a result of retirement, disability, or death of a wage earner insured by the social security retirement, disability, and survivors program.

FUNCTION 650 PROJECTIONS

[In billions of dollars]

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	BA	163.3	162.5	180.7	197.2	210.6	227.0
	O	169.3	181.0	192.8	205.5	218.7	233.4
Committee recommendation	BA	184.1	174.9	194.7	211.0	226.7	256.7
	O	167.6	177.1	188.4	200.8	213.7	227.8

COMMITTEE RECOMMENDATION

The Committee recommends \$174.9 billion in budget authority and \$177.1 billion in outlays in this function in FY 1984.

The Committee recommendation incorporates the changes enacted by the Congress in the Social Security Amendments of 1983 (Public Law 98-21). These provisions ensure the solvency of the social security retirement program through a combination of revenue increases, slower outlay growth, and general fund transfers.

FUNCTION 650 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Old-age and survivors insurance (OASI)	63.1	72.3	79.6	88.7	101.8	120.7	136.1
Disability insurance (DI)	9.6	11.6	12.6	13.9	15.3	17.3	18.0
Total function	72.7	83.9	92.2	102.6	117.1	138.0	154.1
Nominal growth (percent)	14.1	15.4	9.9	11.3	14.1	17.8	11.7
Real growth (percent)	6.6	7.3	2.6	0.8	0.6	5.9	4.1

Function 700: VETERANS BENEFITS AND SERVICES

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Meet the Nation's obligation to compensate veterans disabled while in military service for their loss of earning power.

—Provide medical care to veterans for disabilities incurred while in military service.

—Compensate the families of veterans who are killed in service or who die from service-related disabilities for the reduction in the family's earning power.

—Help veterans of wartime and draft service return to civilian life on a social and economic basis comparable to their peers who did not perform military duty.

—Provide psychological readjustment services and training opportunities to Vietnam-era veterans with special needs.

—Provide financial assistance to needy veterans and their survivors.

FUNCTION 700 PROJECTIONS

[In billions of dollars]

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	BA	24.9	25.8	26.1	26.4	26.7	27.0
	O	24.5	25.5	25.8	26.1	26.3	26.7
Committee recommendation.....	BA	25.2	25.7	26.8	27.3	27.8	28.2
	O	24.5	25.7	26.4	26.7	27.2	27.6

COMMITTEE RECOMMENDATION

The Committee recommends \$25.7 billion in budget authority and \$25.7 billion in outlays for this function in FY 1984.

The Committee recommendation accommodates additional FY 1983 supplemental funding to accelerate the construction of VA facilities that were requested in the President's FY 1984 budget.

The Committee recommendation assumes a 6-month delay in FY 1984 in the cost-of-living increases for the veterans pension and compensation programs as requested by the President. A delay in

the veterans pension cost-of-living increase to January in 1984 and beyond was enacted in Public Law 98-21, the Social Security Amendments of 1983. The Committee recommendation also assumes that the compensation cost-of-living increase will move to January in 1985 and beyond.

The Committee recommendation accommodates a new readjustment benefits initiative recommended by the Senate Veterans' Affairs Committee. It would also accommodate the increased spending for discretionary programs as requested by the President and recommended by the Veterans' Affairs Committee.

FUNCTION 700 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Veterans compensation.....	5.2	5.7	6.2	6.7	7.4	8.4	9.3
Veterans pensions.....	2.9	3.1	3.3	3.5	3.6	3.8	3.9
Veterans education, training, and rehabilitation.....	5.5	3.7	3.4	2.8	2.3	2.3	1.9
Hospital and medical care for veterans.....	4.0	4.7	5.3	5.6	6.5	7.0	7.5
All other.....	0.8	0.7	0.9	1.3	1.3	1.6	1.3
Total function.....	18.4	18.0	19.0	19.9	21.2	23.0	24.0
Nominal growth (percent).....	11	-2	6	5	7	8	4
Real growth (percent).....	6	-8	-2	-3	-2	-1	-3

Function 750: ADMINISTRATION OF JUSTICE

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Provide for the safety of persons and the protection of their property through law enforcement.

—Provide fair and prompt trials for those accused of Federal crimes and for those involved in civil disputes.

—Operate detention and correctional facilities for persons charged with or convicted of Federal crimes.

—Assist in the improvement of State and local criminal justice systems.

—Represent the interest of the public in civil litigation and in other legal matters.

FUNCTION 750 PROJECTIONS

(in billions of dollars)

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	BA	5.1	5.4	5.5	5.6	5.7	5.8
	0	5.1	5.4	5.5	5.5	5.6	5.7
Committee recommendation.....	BA	5.2	6.0	5.8	5.9	6.7	6.5
	0	5.1	6.0	5.9	5.8	6.6	6.4

COMMITTEE RECOMMENDATION

The Committee recommends \$6.0 billion in budget authority and outlays for this function in FY 1984.

The Committee assumes spending increases for Federal law enforcement activities, additional funding for a criminal justice assistance grant program and current law spending for the Legal Services Corporation and juvenile justice grant programs. The Committee assumes funding for immigration reform legislation and assumes that spending for all other programs in this function will be at baseline levels.

FUNCTION 750 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Federal Bureau of Investigation	0.5	0.5	0.6	0.6	0.6	0.7	0.7
Immigration and Naturalization Service	0.2	0.2	0.3	0.3	0.3	0.4	0.4
Drug Enforcement Administration	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Customs Service	0.3	0.3	0.4	0.4	0.5	0.5	0.5
The Judiciary	0.3	0.4	0.4	0.5	0.6	0.6	0.7
Law enforcement assistance; research and statistics	0.9	0.8	0.7	0.7	0.7	0.5	0.3
Legal Services Corporation	0.1	0.1	0.2	0.3	0.3	0.3	0.3
Federal prison system	0.2	0.2	0.3	0.3	0.3	0.4	0.4
All other	0.7	0.9	0.7	0.9	1.0	1.1	1.1
Total function	3.3	3.6	3.8	4.2	4.6	4.7	4.7
Nominal growth (percent)	14	9	6	11	10	2	0
Real growth (percent)	8	2	-1	1	1	-7	-7

Function 800: GENERAL GOVERNMENT

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

- Provide a legislative system responsive to the Nation's people.
- Provide national executive leadership and development of Federal management policy.
- Ensure efficiency and accountability in the use of public resources.
- Formulate tax and fiscal policies and conduct the operations of the Federal Government efficiently and effectively.
- Provide central services for all Federal agencies, including property and personnel management.

FUNCTION 800 PROJECTIONS

[In billions of dollars]

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	BA	5.5	5.5	5.8	6.0	6.2	6.3
	0	5.7	5.4	5.6	5.7	5.9	6.2
Committee recommendation.....	BA	5.6	5.7	6.0	6.2	6.3	6.3
	0	5.7	5.7	5.8	5.9	6.0	6.2

COMMITTEE RECOMMENDATION

The Committee recommends \$5.7 billion in budget authority and outlays for this function in FY 1984.

The Committee recommendation assumes that spending will increase for the Internal Revenue Service and the Office of Science and Technology Policy. The Committee assumes baseline spending levels for the Federal buildings fund and current law spending for all other programs in this function.

FUNCTION 800 HISTORICAL DATA

(Outlays—billions of dollars)

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Legislative branch	0.7	0.8	0.9	0.9	1.0	1.0	1.2
Internal Revenue Service.....	1.7	1.8	1.9	2.1	2.3	2.5	2.5
General Services Administration.....	0.1	0.1	0.2	0.2	0.4	0.2	0.3
All other	0.4	0.6	0.7	1.0	0.8	1.0	0.7
Total function	2.9	3.2	3.7	4.1	4.5	4.6	4.7
Nominal growth (percent)	-7	10	16	11	10	9	2
Real growth (percent).....	-10	1	9	2	1	-7	-5

Function 850: GENERAL PURPOSE FISCAL ASSISTANCE

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Strengthen the capacities of State and local governments to finance essential public services and cushion the fiscal impact of adverse economic conditions.

—Assist States and localities by sharing receipts generated by Federal land management activities.

FUNCTION 850 PROJECTIONS

[In billions of dollars]

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	BA	6.4	7.1	7.2	7.5	7.9	8.2
	O	6.4	7.0	7.1	7.5	7.8	8.1
Committee recommendation.....	BA	6.4	7.1	7.2	7.5	7.9	8.2
	O	6.4	7.0	7.1	7.5	7.8	8.1

COMMITTEE RECOMMENDATION

The Committee recommends \$7.1 billion in budget authority and \$7.0 billion in outlays for this function in FY 1984.

The Committee recommends that spending for this function be at baseline levels.

FUNCTION 850 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
General revenue sharing.....	6.2	6.8	6.8	6.8	6.8	5.1	4.6
Payments and loans to the District of Columbia.....	0.3	0.3	0.4	0.4	0.4	0.5	0.4
Antirecession fiscal assistance.....		1.7	1.3				
All other	0.7	0.7	1.1	1.2	1.3	1.2	1.4
Total function	7.2	9.5	9.6	8.4	8.6	6.9	6.4
Nominal growth (percent).....	1	32	1	-13	2	-20	-7
Real growth (percent).....	-4	24	-6	-20	-6	-27	-13

Function 900: NET INTEREST

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

Interest is the cost of borrowing or the income from lending money. The interest function includes both interest paid and interest received by the Federal Government.

Deductions for interest received by trust funds are included to eliminate double counting of budget authority and outlays in order to reflect properly interest transactions with the public.

FUNCTION 900 PROJECTIONS

[In billions of dollars]

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline	BA	87.3	96.0	106.9	114.7	123.6	131.7
	O	87.3	96.0	106.9	114.7	123.6	131.7
Committee recommendation	BA	87.6	95.3	102.1	104.3	106.8	107.6
	O	87.6	95.3	102.1	104.3	106.8	107.6

COMMITTEE RECOMMENDATION

The Committee recommends \$95.3 billion in budget authority and \$95.3 billion in outlays for this function in FY 1984.

The Committee recommendation assumes reductions in interest costs consistent with the deficit reductions contained in the recommended budget.

FUNCTION 900 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Interest on the public debt	37.1	41.9	48.7	59.8	74.8	95.5	117.2
Interest received by trust funds	-7.8	-8.1	-8.5	-10.0	-12.0	-13.8	-16.1
Other interest	-2.6	-3.9	-4.7	-7.3	-10.3	-13.0	-16.4
Total function	26.7	29.9	35.4	42.6	52.5	68.7	84.7
Nominal growth (percent)	15	12	18	20	23	31	23
Real growth (percent)	8	4	11	11	13	19	15

Function 920: ALLOWANCES

Allowances are included in the budget to provide for unspecified requirements or savings that may arise. Such allowances do not represent specific program decisions. Once specific program decisions are made, the allowances shown here are replaced by changes in the appropriate functions of the budget.

At the present time, the only item included in this function is an allowance for pay raises for employees of Federal agencies other than the Department of Defense.

FUNCTION 920 PROJECTIONS

[In billions of dollars]

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	EA	0.8	1.7	3.2	4.9	6.6	8.5
	0	0.9	1.7	3.4	5.2	7.1	9.0
Committee recommendation	BA	0.8	0.6	1.9	3.2	4.6	6.0
	0	0.9	0.6	2.0	3.4	4.9	6.4

COMMITTEE RECOMMENDATION

The Committee recommends \$0.6 billion in budget authority and \$0.6 billion in outlays for this function in FY 1984.

The Committee recommendation assumes a 6-month delay in pay raises for Federal civilian agency employees, with a 4-percent pay increase in April 1984. The 6-month delay would result in a permanent shift of the effective date of the pay increase from October to April.

The Committee recommendation also assumes the President's FY 1983 pay supplemental request which requires 50 percent absorption of the costs associated with the October 1982 pay raise for agencies other than the Department of Defense.

Function 950: UNDISTRIBUTED OFFSETTING RECEIPTS

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

Offsetting receipts are generally deducted from outlays and budget authority at the function, subfunction, or account level. In two instances, however, such payments are deducted from the budget totals as undistributed offsetting receipts. Payments for rents and royalties on the Outer Continental Shelf (OCS) are very large and their inclusion in a particular function would distort the presentation of Federal program costs and are therefore deducted here. Deductions for the payments that each agency makes as its share of employee retirement costs are included here to eliminate double counting of budget authority and outlays.

FUNCTION 950 PROJECTIONS

(In billions of dollars)

		FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Baseline.....	BA	-18.0	-17.4	-18.8	-23.6	-22.2	-22.4
	0	-18.0	-17.4	-18.8	-23.6	-22.2	-22.4
Committee recommendation.....	BA	-18.0	-17.9	-18.7	-23.5	-22.0	-22.2
	0	-18.0	-17.9	-18.7	-23.5	-22.0	-22.2

COMMITTEE RECOMMENDATION

The Committee recommends -\$17.9 billion in budget authority and -\$17.9 billion in outlays for this function for FY 1984.

The Committee recommendation assumes lower receipts as a result of reduced employer contributions to employee retirement funds caused by the pay recommendations discussed in functions 050 and 920.

The Committee also assumes increased levels of OCS receipts based on the latest available information.

FUNCTION 950 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual						
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Employer share, employee retirement.....	-4.2	-4.5	-5.0	-5.3	-5.8	-6.4	-7.0
Rents and royalties on the Outer Continen- tal Shelf	-2.7	-2.4	-2.3	-3.3	-4.1	-10.0	-6.2
Total function	-6.9	-6.9	-7.2	-8.5	-9.9	-16.5	-13.3
Nominal growth (percent)	8	0	4	18	16	67	-19
Real growth (percent)	0	-6	-2	8	8	51	-24

Chapter VI. CREDIT

The resolution includes aggregates and functional allocations for two types of Federal credit transactions: new direct loan obligations and new loan guarantee commitments.

A *new direct loan obligation* is a binding agreement by a Federal agency to make a direct loan once specified conditions are fulfilled by the borrower. A direct loan is a loan made by an agency with an obligation on the part of the borrower to repay the loan with or without interest.

A *new loan guarantee commitment* is a binding agreement by a Federal agency to guarantee a private loan once specified conditions are fulfilled by the borrower or lender. A loan guarantee is a pledge to pay part or all of the principal of and interest on a loan or security in the event of default by a borrower.

The new loan guarantee commitment totals in the resolution exclude commitments to guarantee secondary market instruments backed by loans previously guaranteed by the Federal Government. These commitments do not increase the Federal Government's contingent liability.

Congressional Control of Federal Credit

Appropriation act language placing dollar limitations on new direct loan obligations and new loan guarantee commitments is the primary means the Congress now employs to control individual credit programs on an annual basis. In FY 1983 appropriation acts enacted to date, limitations have been imposed on 29 percent of new direct loan obligations and 71 percent of new loan guarantee commitments.

Credit Baseline

For the first time this year, the President's FY 1984 budget included multiyear estimates of new direct loan obligations and new loan guarantee commitments. To assist the Committee, the Congressional Budget Office (CBO) developed a credit baseline for FY 1983 through FY 1988. For each credit program that is subject to an appropriation limitation in FY 1983, the baseline assumes that the limitation will be allowed to increase in each future fiscal year to offset the impact of inflation, except where the authorizing statute restrains the program. For each program not limited in an appropriation act in FY 1983, the baseline assumes CBO's estimate of the activity level in future years.

CBO estimates that the FY 1983 activity levels for a few credit programs will be less than the FY 1983 appropriation act limitations on the programs enacted to date. In such cases, the credit baseline used by the Committee assumes the full dollar amounts of the limitations.

Table 1
CREDIT BASELINE

[in billions of dollars]

Function	Activity	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
150: International Affairs	New direct loan obligations	11.0	11.6	12.2	12.7	13.3	13.9
	New loan guarantee commitments	9.2	9.7	10.1	10.6	11.0	11.4
	New direct loan obligations	0.2	(*)				
250: General Science, Space, and Technology	New loan guarantee commitments						
	New direct loan obligations						
270: Energy	New direct loan obligations	13.1	14.2	15.0	15.5	16.0	16.1
	New loan guarantee commitments	0.2	0.2				
	New direct loan obligations	(*)	(*)	(*)	(*)	(*)	(*)
300: Natural Resources and Environment	New loan guarantee commitments						
	New direct loan obligations						
350: Agriculture	New direct loan obligations	16.4	13.2	11.0	11.3	12.0	12.0
	New loan guarantee commitments	5.5	3.8	3.8	3.8	3.9	3.9
	New direct loan obligations	6.4	6.5	6.7	6.9	7.1	7.3
370: Commerce and Housing Credit	New loan guarantee commitments	48.7	51.0	53.4	55.7	58.0	60.2
	New direct loan obligations						
400: Transportation	New direct loan obligations	0.2	0.1	0.1	0.1	0.1	0.1
	New loan guarantee commitments	1.1	0.8	0.6	0.4	0.4	0.4
450: Community and Regional Development	New direct loan obligations	1.6	2.2	2.3	2.4	2.5	2.8
	New loan guarantee commitments	0.5	0.5	0.5	0.4	0.4	0.3
	New direct loan obligations						
500: Education, Training, Employment, and Social Services	New loan guarantee commitments	6.5	6.6	6.6	6.6	6.6	6.6
	New direct loan obligations						
550: Health	New direct loan obligations	(*)	(*)	(*)	(*)	(*)	(*)
	New loan guarantee commitments	0.2	0.3	0.3	0.3	0.3	0.3

CREDIT BASELINE—Continued

[In billions of dollars]

Function	Activity	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
600: Income Security	New direct loan obligations	1.0	1.0	0.8	0.5	0.3	0.1
	New loan guarantee commitments	14.6	14.7	16.5	18.1	18.5	18.5
700: Veterans Benefits and Service	New direct loan obligations	1.0	0.8	0.6	0.7	0.8	0.9
	New loan guarantee commitments	8.0	9.0	10.5	12.5	15.0	17.0
850: General Purpose Fiscal Assistance	New direct loan obligations	0.3	0.3	0.3	0.3	0.4	0.4
	New loan guarantee commitments						
Totals	New direct loan obligations	51.8	50.6	49.7	51.2	53.4	54.5
	New loan guarantee commitments	94.5	96.6	102.3	108.4	114.1	118.6

* Less than \$50 million.

Credit Transactions of the Federal Financing Bank

The off-budget Federal Financing Bank (FFB) engages in two types of transactions that affect the credit budget:

(1) *Conversion of loan guarantees into off-budget direct loans:* The FFB makes direct loans to borrowers who are recipients of loan guarantees by Federal agencies, effectively converting the agencies' loan guarantees into off-budget direct loans. The resulting off-budget outlays do not appear in the budgets of the agencies originating the transactions.

(2) *Purchases of certificates of beneficial ownership:* The FFB purchases certificates of beneficial ownership (CBOs) from Federal agencies that make direct loans. CBO sales are a means of financing agency loans. Under accepted budgetary accounting, FFB purchases of CBOs from an agency would not affect the agency's budget. However, because of current law, CBO sales reduce the agency's budget authority and outlays and result in budget authority and outlays being charged to the off-budget FFB. This treatment obscures the real level of the agency's spending and, in the case of most agencies that sell CBOs, reduces the agency's budget and the unified budget deficit by transferring a portion of the agency's spending off-budget.

COMMITTEE RECOMMENDATION

The Committee recommends appropriate levels of new direct loan obligations and new loan guarantee commitments for FY 1983 through FY 1988. The recommendations are nonbinding targets that are consistent with the Committee's recommendations for budget authority and outlays. Table 2 summarizes the Committee's credit recommendations.

Table 2
SUMMARY OF COMMITTEE CREDIT RECOMMENDATIONS BY FUNCTION

[in billions of dollars]

Function	Activity	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
150: International Affairs	New direct loan obligations	11.7	11.2	11.5	11.6	11.7	11.7
	New loan guarantee commitments	9.2	10.3	10.3	10.3	10.3	10.3
250: General Science, Space, and Technology	New direct loan obligations	0.2	(*)				
	New loan guarantee commitments						
270: Energy	New direct loan obligations	13.1	13.9	14.3	14.4	14.6	14.4
	New loan guarantee commitments	0.2	0.2				
300: Natural Resources and Environment	New direct loan obligations	0.1	(*)	(*)	(*)	(*)	(*)
	New loan guarantee commitments						
350: Agriculture	New direct loan obligations	18.6	12.1	11.7	12.2	13.3	13.4
	New loan guarantee commitments	5.5	3.8	3.8	3.8	3.9	3.9
370: Commerce and Housing Credit	New direct loan obligations	6.5	6.4	6.3	6.3	6.2	6.3
	New loan guarantee commitments	48.7	48.7	48.7	48.7	48.7	48.7
400: Transportation	New direct loan obligations	0.2	0.1	0.1	0.1	0.1	0.1
	New loan guarantee commitments	1.1	0.6	0.4	0.3	0.3	0.3
450: Community and Regional Development	New direct loan obligations	2.1	1.7	1.8	1.8	1.8	2.1
	New loan guarantee commitments	0.5	0.3	0.3	0.4	0.4	0.4
500: Education, Training, Employment, and Social Services	New direct loan obligations	0.6	0.7	0.7	0.8	0.9	0.9
	New loan guarantee commitments	6.5	6.6	6.6	6.6	6.6	6.6
550: Health	New direct loan obligations	(*)	(*)	(*)	(*)	(*)	(*)
	New loan guarantee commitments	0.2	0.3	0.3	0.3	0.3	0.3

600: Income Security.....	New direct loan obligations.....	1.0	1.0	0.8	0.5	0.3	0.1
	New loan guarantee commitments.....	14.6	14.7	16.5	18.1	18.5	18.5
700: Veterans Benefits and Services.....	New direct loan obligations.....	1.0	0.8	0.6	0.7	0.8	0.9
	New loan guarantee commitments.....	8.0	9.0	10.5	12.5	15.0	17.0
850: General Purpose Fiscal Assistance.....	New direct loan obligations.....	0.3	0.3	0.3	0.3	0.4	0.4
	New loan guarantee commitments.....						
Totals.....	New direct loan obligations.....	55.4	48.2	48.1	48.7	50.1	50.3
	New loan guarantee commitments.....	94.5	94.5	97.4	101.0	104.0	106.0

* Less than \$50 million.

The Committee's recommendation assumes that the FY 1983 appropriation act limitations on new Rural Electrification Administration (REA) direct loan obligations and loan guarantee commitments will be continued in future years. The REA direct loan and loan guarantee levels assumed by the Committee are predicated on the continuation of the present criteria and supplemental loan ratios and on interest rates set in the Rural Electrification Act of 1936, as amended by the Omnibus Budget Reconciliation Act of 1981. The Committee's recommendation also assumes a continuation of REA access to the FFB.

Section 4 of the resolution expresses the sense of the Congress that the President and the Congress, through the appropriations process, should limit the on-budget new direct loan obligations of the Federal Government to \$37.6 billion in FY 1983 and \$29.3 billion in FY 1984, off-budget new direct loan obligations to \$17.8 billion in FY 1983 and \$18.9 billion in FY 1984, and new loan guarantee commitments to \$94.5 billion in FY 1983 and \$94.5 billion in FY 1984.

Section 4 also expresses the sense of the Congress that the President and the Congress should limit FFB originations of direct loans guaranteed by other Federal agencies to \$16.2 billion in FY 1983 and \$17.3 billion in FY 1984, and FFB purchases of certificates of beneficial ownership from Federal agencies to \$11.5 billion in FY 1983 and \$13.2 billion in FY 1984. These levels of FFB activity, which result in outlays that are excluded from the unified budget, are consistent with the appropriate levels of new direct loan obligations and new loan guarantee commitments for fiscal years 1983 and 1984 recommended by the Committee.

Section 4 of the resolution also expresses the sense of the Congress that direct borrowing transactions of Federal agencies should be, to the maximum extent possible, restricted to the FFB.

Table 3 summarizes the FFB-financed credit activity assumed in the Committee recommendation.

Table 3

FFB-FINANCED CREDIT ACTIVITY

[In billions of dollars]

Credit activity	Actual	Committee recommendation					
	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
New direct loan obligations:							
Guaranteed loan originations	13.6	16.2	17.3	17.7	17.8	17.9	17.7
Purchases of certificates of beneficial ownership	12.6	11.5	13.2	11.4	9.2	9.5	10.2
Total	26.2	27.7	30.5	29.1	27.0	27.7	27.9

Section 5 of the resolution provides that the joint explanatory statement accompanying the conference report on the resolution

shall include an allocation among the appropriate committees of the House and the Senate of the appropriate levels of new direct loan obligations and new loan guarantee commitments for fiscal years 1983 and 1984 set forth in the conference report. Section 5 also provides that each committee receiving an allocation of credit activity for fiscal years 1983 and 1984 shall subdivide the allocation among its subcommittees.

The First Budget Resolution for FY 1983 provided an allocation of FY 1983 credit activity to the appropriate committees. The allocation and the subdivision of it by the committees have enabled this Committee and the House Budget Committee to compare congressional action on credit programs to the assumptions in the First Budget Resolution for FY 1983.

The Committee believes it is important to continue the credit allocation procedure. The procedure informs the Congress of the budgetary context of decisions about individual credit programs. The allocation procedure and CBO estimates of the credit budget impact of legislation enable the Congress to make informed decisions about the appropriate levels of credit activity. The procedure also will enable the Congress and the President to limit new direct loan obligations and new loan guarantee commitments to the appropriate levels set forth in section 4 of the resolution.

Section 6 of the resolution expresses the sense of the Congress that the budgets of Federal agencies initiating FFB purchases of certificates of beneficial ownership and originations of guaranteed loans should include the budget authority and outlays resulting from the transactions. The section includes a recommendation by the Congress that the committees with jurisdiction over the Federal Financing Bank Act of 1973 consider expeditiously legislation to require that the budgetary impact of such Federal Financing Bank transactions be included in the budgets of the initiating agencies beginning with the FY 1985 budget.

During the 97th Congress the Committee's Temporary Subcommittee on Federal Credit examined the issue of the budgetary treatment of agency transactions with the FFB. The subcommittee found that it is necessary to attribute the budget authority and outlays resulting from transactions with the FFB to the budgets of the initiating agencies "for the budget properly to document Federal activity and to provide accurate information on the use of budget resources." The Committee believes that the committees which have jurisdiction over the Federal Financing Bank Act of 1973, should consider expeditiously legislation to institute proper budgetary treatment of agency transactions with the FFB.

In recommending the consideration of such legislation, the Committee does not address the issues of the on- or off-budget status of any agency initiating transactions with the FFB or the access of any such agency to the FFB.

ROLLCALL VOTES IN COMMITTEE

Rollcall votes taken during Committee consideration of this legislation are as follows:

1. Chiles motion to set totals in Function 250, General Science, Space and Technology at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	7.9	8.5	8.5	8.4	8.4	8.5
Outlays	7.7	8.2	8.5	8.4	8.4	8.4

Motion agreed to by voice vote; Senator Boschwitz requesting to be recorded as voting nay.

2. Hart motion to set totals in Function 270, Energy at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	3.9	5.9	6.2	6.5	6.6	7.3
Outlays	4.5	4.6	4.9	5.4	5.8	6.2

Motion rejected: 1 Yeas 10 Nays

Yeas:	Hart	Nays:	Kassebaum Boschwitz Grassley Gorton Chiles Biden Johnston Metzenbaum Exon Domenici
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3. Johnston motion to set totals in Function 270, Energy at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	3.9	4.4	4.3	3.8	4.1	5.0
Outlays	4.5	4.3	3.5	3.5	3.9	4.3

Motion rejected: 5 Yeas 6 Nays

Yeas:	Biden Johnston Hart Metzenbaum Domenici	Nays:	Kassebaum Boschwitz Grassley Gorton Chiles Exon
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4. Chiles motion to set totals in Function 270, Energy at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	3.9	3.9	3.9	3.7	3.9	4.8
Outlays	4.5	4.0	3.1	3.3	3.8	4.1
Motion rejected:	4 Yeas		7 Nays			
Yeas:	Kassebaum Chiles Exon Domenici		Nays: Boschwitz Grassley Gorton Biden Johnston Hart Metzenbaum			

5. Grassley/Gorton motion to set totals in Function 270, Energy at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	3.9	3.9	3.6	3.2	3.1	3.5
Outlays	4.5	4.0	2.9	2.7	2.9	3.0
Motion agreed to:	6 Yeas		5 Nays			
Yeas:	Kassebaum Boschwitz Grassley Gorton Chiles Exon		Nays: Biden Johnston Hart Metzenbaum Domenici			

6. Moynihan/Chiles motion to set totals in Function 300, Natural Resources and Environment at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	11.6	12.0	12.2	12.5	12.8	13.0
Outlays	12.5	12.0	12.5	12.2	12.1	12.3
Motion agreed to:	7 Yeas		4 Nays			
Yeas:	Kassebaum Chiles Biden Johnston Metzenbaum Riegle Moynihan		Nays: Boschwitz Grassley Gorton Exon			

7. Metzenbaum motion to set totals in Function 350, Agriculture at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	22.7	14.8	15.0	14.3	14.8	15.3
Outlays	22.6	14.6	13.3	14.2	14.7	15.3
Motion rejected:	3 Yeas		6 Nays			
Yeas:	Hart Metzenbaum Exon		Nays:	Boschwitz Grassley Quayle Gorton Chiles Domenici		

8. Exon motion to set totals in Function 350, Agriculture at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	21.2	13.7	15.0	14.3	14.8	15.3
Outlays	21.1	13.5	13.3	14.2	14.7	15.3
Motion rejected:	4 Yeas		5 Nays			
Yeas:	Chiles Hart Metzenbaum Exon		Nays:	Boschwitz Grassley Quayle Gorton Domenici		

9. Grassley motion to set totals in Function 350, Agriculture at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	21.2	13.6	14.8	14.1	14.6	15.0
Outlays	21.1	13.4	13.2	14.0	14.5	15.0
Motion rejected:	3 Yeas		6 Nays			
Yeas:	Boschwitz Grassley Gorton		Nays:	Quayle Chiles Hart Metzenbaum Exon Domenici		

10. Quayle motion to set totals in Function 350, Agriculture at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	21.2	13.2	13.8	12.75	13.0	13.4
Outlays	20.9	13.2	12.2	12.7	13.0	13.5
Motion rejected:	3 Yeas		6 Nays			
Yeas:	Grassley Quayle Domenici		Nays:	Boschwitz Gorton Chiles Hart Metzenbaum Exon		

11. Reconsideration of Exon motion to set totals in Function 350, Agriculture at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	21.2	13.7	15.0	14.3	14.8	15.3
Outlays	21.1	13.5	13.3	14.2	14.7	15.3
Motion agreed to:	7 Yeas		3 Nays			
Yeas:	Boschwitz Gorton Chiles Sasser Hart Metzenbaum Exon		Nays:	Grassley Quayle Domenici		

12. President Reagan's proposal to set totals in Function 050, Defense, offered by Senator Metzenbaum, at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	244.8	280.2	329.6	364.3	396.4	432.1
Outlays	214.2	244.7	282.3	321.6	357.5	389.8
Motion rejected:	2 Yeas		19 Nays			
Yeas:	Hatch Symms		Nays:	Armstrong Kassebaum Boschwitz Tower Andrews Grassley Kasten Quayle Gorton Chiles Biden Johnston Sasser Hart Metzenbaum Riegle Moynihan Exon Domenici		

13. Tower motion to set totals in Function 050, Defense at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	243.9	274.9	314.3	356.7	404.4	458.6
Outlays	214.2	243.2	277.7	313.8	351.2	394.8
Motion rejected:	7 Yeas		14 Nays			
Yeas:	Armstrong Boschwitz Hatch Tower Symms Kasten Quayle		Nays:	Kassebaum Andrews Grassley Gorton Chiles Biden Johnston Sasser Hart Metzenbaum Riegle Moynihan Exon Domenici		

14. Exon/Johnston/Moynihan/Gorton/Kassebaum/Andrews motion to set totals in Function 050, Defense at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	243.9	267.0	299.5	334.8	372.1	410.4
Outlays	214.2	241.4	270.7	300.0	331.5	363.6

Motion agreed to: 17 Yeas 4 Nays

Yeas:	Armstrong	Nays:	Hatch
	Kassebaum		Tower
	Boschwitz		Symms
	Andrews		Grassley
	Kasten		
	Quayle		
	Gorton		
	Chiles		
	Biden		
	Johnston		
	Sasser		
	Hart		
	Metzenbaum		
	Riegle		
	Moynihan		
	Exon		
	Domenici		

15. Chiles/Kasten motion to set totals in Function 150, International Affairs at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	24.9	18.2	16.5	15.9	16.9	17.7
Outlays	11.5	12.7	12.8	12.8	12.7	12.4

Motion agreed to: 12 Yeas 5 Nays

Yeas:	Boschwitz	Nays:	Armstrong
	Hatch		Kassebaum
	Kasten		Symms
	Quayle		Grassley
	Chiles		Gorton
	Johnston		
	Sasser		
	Hart		
	Metzenbaum		
	Riegle		
	Exon		
	Domenici		

16. Domenici motion to set totals in Function 370, Commerce and Housing Credit at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	5.2	5.9	6.5	6.5	8.0	8.3
Outlays	2.7	1.8	(*)	-0.3	1.2	1.7

Motion agreed to by voice vote.

(*) less than \$50 million.

17. Riegle motion to set totals in Function 450, Community and Regional Development at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	8.3	7.0	7.9	7.9	8.0	7.9
Outlays	7.9	8.5	8.7	8.2	8.1	7.9

Motion rejected: 4 Yeas 8 Nays

Yeas: Chiles
Metzenbaum
Riegle
Moynihan

Nays: Armstrong
Kassebaum
Andrews
Grassley
Quayle
Gorton
Johnston
Domenici

18. Domenici motion to set totals in Function 450, Community and Regional Development at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	8.3	6.6	7.1	7.1	7.1	7.1
Outlays	7.9	8.1	8.2	7.6	7.5	7.4

Motion agreed to: 9 Yeas 3 Nays

Yeas: Armstrong
Kassebaum
Andrews
Grassley
Quayle
Gorton
Chiles
Johnston
Domenici

Nays: Metzenbaum
Riegle
Moynihan

19. Mohnihan/Kassebaum motion to set totals in Function 400, Transportation at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	26.8	28.6	29.8	30.7	31.3	32.4
Outlays	22.1	26.1	27.4	28.7	29.8	30.0
Motion rejected:	7 Yeas		9 Nays			
Yeas:	Kassebaum Andrews Sasser Hart Metzenbaum Riegle Moynihan		Nays: Hatch Symms Grassley Kasten Quayle Gorton Chiles Exon Domenici			

20. Grassley/Gorton/Domenici motion to set totals in Function 400, Transportation at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	26.8	27.5	28.2	29.0	29.6	30.1
Outlays	22.1	25.8	26.8	27.7	28.4	28.3
Motion agreed to:	10 Yeas		6 Nays			
Yeas:	Kassebaum Hatch Andrews Symms Grassley Kasten Quayle Gorton Exon Domenici		Nays: Chiles Sasser Hart Metzenbaum Riegle Moynihan			

21. Biden/Chiles motion to set totals in Function 750, Justice at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	5.2	6.0	5.8	5.9	6.7	6.5
Outlays	5.1	6.0	5.9	5.8	6.6	6.4

Motion agreed to by voice vote; Senator Grassley and Senator Hatch requesting to be recorded as voting nay.

22. Domenici motion to set totals in Function 800, General Government at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	5.6	5.7	6.0	6.2	6.3	6.3
Outlays	5.7	5.7	5.8	5.9	6.0	6.2
Motion agreed to:	6 Yeas		1 Nays			
Yeas:	Grassley Gorton Chiles Moynihan Exon Domenici		Nays: Metzenbaum			

23. Metzenbaum/Riegle motion to set totals in Function 500, Education, Training, Employment, and Social Services at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	28.0	35.2	33.1	34.2	35.2	36.4
Outlays	26.8	29.3	32.1	33.2	34.2	35.5
Motion rejected:	4 Yeas		16 Nays			
Yeas:	Hart Metzenbaum Riegle Moynihan		Nays: Armstrong Kassebaum Boschwitz Hatch Andrews Symms Grassley Kasten Quayle Gorton Chiles Hollings Johnston Sasser Exon Domenici			

24. Hart motion to set totals in Function 500, Education, Training, Employment, and Social Services at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	28.0	33.0	31.0	32.2	33.3	34.6
Outlays	26.8	27.8	29.8	31.2	32.3	33.6
Motion rejected:	7 Yeas		13 Nays			
Yeas:	Chiles Hollings Sasser Hart Metzenbaum Riegle Moynihan		Nays:	Armstrong Kassebaum Boschwitz Hatch Andrews Symms Grassley Kasten Quayle Gorton Johnston Exon Domenici		

25. Sasser motion to set totals in Function 500, Education, Training, Employment, and Social Services at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	28.0	31.7	29.6	30.7	31.7	32.9
Outlays	26.8	27.5	28.7	29.4	30.7	32.0
Motion rejected:	8 Yeas		12 Nays			
Yeas:	Andrews Chiles Hollings Sasser Hart Metzenbaum Riegle Moynihan		Nays:	Armstrong Kassebaum Boschwitz Hatch Symms Grassley Kasten Quayle Gorton Johnston Exon Domenici		

26. Domenici motion to set totals in Function 500, Education, Training, Employment, and Social Services at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	28.0	30.8	27.5	27.5	27.4	27.4
Outlays	26.8	27.0	27.4	27.4	27.3	27.5
Motion agreed to:	12 Yeas		8 Nays			

Yeas:	Armstrong	Nays:	Grassley
	Kassebaum		Chiles
	Boschwitz		Hollings
	Hatch		Sasser
	Andrews		Hart
	Symms		Metzenbaum
	Kasten		Riegle
	Quayle		Moynihan
	Gorton		
	Johnston		
	Exon		
	Domenici		

27. Metzenbaum motion to set totals in Function 550, Health at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	71.1	93.1	106.4	119.6	132.0	144.4
Outlays	82.8	93.1	104.4	115.0	129.1	144.8
Motion rejected:	4 Yeas		14 Nays			

Yeas:	Hart	Nays:	Armstrong
	Metzenbaum		Kassebaum
	Riegle		Hatch
	Moynihan		Andrews
			Symms
			Grassley
			Kasten
			Quayle
			Gorton
			Chiles
			Hollings
			Johnston
			Exon
			Domenici

28. Chiles motion to set totals in Function 550, Health at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	71.2	93.9	105.4	118.3	130.5	141.9
Outlays	82.8	93.0	103.8	114.2	128.0	142.8
Motion rejected:	8 Yeas		10 Nays			
Yeas:	Chiles Hollings Johnston Hart Metzenbaum Riegle Moynihan Exon		Nays:	Armstrong Kassebaum Hatch Andrews Symms Grassley Kasten Quayle Gorton Domenici		

29. Domenici motion to set totals in Function 550, Health at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	71.2	93.2	104.4	116.9	128.3	139.5
Outlays	82.7	92.1	102.8	112.8	125.8	140.4
Motion agreed to:	11 Yeas		8 Nays			
Yeas:	Armstrong Kassebaum Boschwitz Hatch Andrews Symms Kasten Quayle Gorton Exon Domenici		Nays:	Grassley Chiles Hollings Johnston Hart Metzenbaum Riegle Moynihan		

30. Domenici motion to set totals in Function 600, Income Security at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	305.8	300.9	322.2	342.4	362.2	396.8
Outlays	277.8	281.2	293.9	309.4	325.8	344.1

Motion agreed to: 13 Yeas 5 Nays

Yeas:	Kassebaum	Nays:	Armstrong
	Andrews		Hatch
	Quayle		Symms
	Gorton		Grassley
	Chiles		Hart
	Hollings		
	Johnston		
	Sasser		
	Metzenbaum		
	Riegle		
	Moynihan		
	Exon		
	Domenici		

31. Johnston motion to set totals in Function 700, Veterans Benefits and services at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	25.2	25.7	26.8	27.3	27.8	28.2
Outlays	24.5	25.7	26.4	26.7	27.2	27.6

Motion agreed to by voice vote.

32. Metzenbaum motion to set totals in Function 850, General Purpose Fiscal Assistance at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Budget Authority	6.4	7.1	7.2	7.5	7.9	8.2
Outlays	6.4	7.0	7.1	7.5	7.8	8.1

Motion agreed to by voice vote.

36. Metzenbaum motion to set revenue levels at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
	610.3	692.3	778.2	852.9	928.6	1,013.9
Motion rejected:	7	Yeas	15	Nays		
Yeas:	Chiles		Nays:	Armstrong		
	Hollings			Kassebaum		
	Biden			Boschwitz		
	Johnston			Hatch		
	Sasser			Tower		
	Metzenbaum			Andrews		
	Riegle			Symms		
				Grassley		
				Kasten		
				Quayle		
				Gorton		
				Hart		
				Moynihan		
				Exon		
				Domenici		

37. Chiles motion to set revenue levels at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
	603.1	686.2	762.8	830.1	899.5	979.8
Motion rejected:	11	Yeas	11	Nays		
Yeas:	Andrews		Nays:	Armstrong		
	Chiles			Kassebaum		
	Hollings			Boschwitz		
	Biden			Hatch		
	Johnston			Tower		
	Sasser			Symms		
	Hart			Grassley		
	Metzenbaum			Kasten		
	Riegle			Quayle		
	Moynihan			Gorton		
	Exon			Domenici		

38. Domenici motion to set revenue levels at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
	603.1	658.7	729.1	831.8	901.3	971.2
Motion rejected:	8	Yeas	14	Nays		
Yeas:	Kassebaum Boschwitz Tower Andrews Gorton Biden Moynihan Domenici		Nays:	Armstrong Hatch Symms Grassley Kasten Quayle Chiles Hollings Johnston Sasser Hart Metzenbaum Riegle Exon		

39. Grassley/Symms/Hatch/Armstrong motion to set revenue levels at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
	603.1	656.0	723.7	778.2	833.9	899.8
Motion rejected:	7	Yeas	15	Nays		
Yeas:	Armstrong Hatch Tower Symms Grassley Kasten Quayle		Nays:	Kassebaum Boschwitz Andrews Gorton Chiles Hollings Biden Johnston Sasser Hart Metzenbaum Riegle Moynihan Exon Domenici		

40. Domenici motion to set revenue levels at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Changes from baseline	603.1	658.4	729.0	822.2	881.3	951.2
	--	+2.7	+5.4	+43.6	+47.4	+51.4

Motion rejected: 6 Yeas 11 Nays

Yeas:	Kassebaum	Nays:	Armstrong
	Boschwitz		Grassley
	Andrews		Chiles
	Quayle		Hollings
	Gorton		Biden
	Domenici		Johnston
			Sasser
			Metzenbaum
			Riegle
			Moynihan
			Exon

41. Chiles motion to set revenue levels at:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Changes from baseline	603.1	686.8	762.7	830.5	899.5	979.8
	--	+30.2	+39.1	+51.9	+65.6	+80.0

Motion agreed to: 13 Yeas 4 Nays

Yeas:	Kassebaum	Nays:	Armstrong
	Andrews		Boschwitz
	Gorton		Grassley
	Chiles		Quayle
	Hollings		
	Biden		
	Johnston		
	Sasser		
	Metzenbaum		
	Riegle		
	Moynihan		
	Exon		
	Domenici		

42. Motion to adopt Senator Gorton's Credit Provisions.

Motion agreed to by voice vote.

43. Motion to adopt final passage of the resolution:

Motion agreed to: 13 Yeas 4 Nays

Yeas:	Kassebaum	Nays:	Armstrong
	Boschwitz		Grassley
	Andrews		Quayle
	Gorton		Hollings
	Chiles		
	Biden		
	Johnston		
	Sasser		
	Metzenbaum		
	Riegle		
	Moynihan		
	Exon		
	Domenici		

ADDITIONAL VIEWS OF CHAIRMAN PETE V. DOMENICI

The First Concurrent Budget Resolution for FY 1984 stands as a remarkable document for three reasons: first, it reflects the entire range of divisive fiscal and policy debate engaged in by the Congress during the past 30 months; second, it attempts to produce, apart from its tax recommendations, a "steady-state budget" so critical in economic times as uncertain as those now afflicting both America and the rest of the world; and, third, it continues the policy of fiscal restraint across the board that has characterized the budget resolutions of the past 2 years.

That this resolution exists at all is a tribute to the persistence of the bipartisan tradition that has been the hallmark of the Senate Budget Committee. This tradition continues despite the most enormous pressures against the budget process itself and deep divisions on fundamental policy questions among members of the Committee.

On a personal note, then, I must thank all members of the Committee who debated at great length this resolution, including those who supported it and those who could not. While this resolution cannot resolve, as no legislative vehicle can resolve, the basic ideological differences now splitting the Committee, the Committee was able nonetheless to do its basic duty—present to the full Senate a proposed blueprint for fiscal policy for the next 3 years.

I support the basic spending policy outlined in this resolution: to the greatest extent possible squeeze out spending growth and initiate reform, while providing adequate resources to meet basic governmental responsibilities in the areas of national defense, education, science, health, law enforcement, and basic physical facilities.

The Committee was able to hold the line on spending despite great pressures from all areas for very large increases. For example, the House-approved budget is nearly \$30 billion higher in domestic spending budget authority in FY 1984 than the resolution we present to the Senate now. During the past 6 months, almost all other external pressures, also, have been for more spending as the economy faltered. The administration's request for \$11 billion in FY 1983 supplemental spending is incorporated in this resolution, as is the spending created by the passage of the multibillion dollar Surface Transportation Act, which was signed into law late in 1982 by President Reagan. Finally, this resolution incorporates the impact of the additional \$5 billion in emergency jobs spending—passed by Congress and signed into law by the President earlier this year.

The total impact of all of these actions, over which the Committee had no control and which exceeded the Committee's spending recommendations of last year, has been to add billions to the FY 1984 deficit. After adjusting for these actions of Congress and the administration and after taking into account economic changes during the past year, the resolution we have produced is only marginally higher than the FY 1984 spending level recommended last year in the FY 1983 budget approved by Congress.

In short, this is a fiscally restrained budget.

Unfortunately, this budget contains one prominent flaw: it asks for tax increases of more than \$30 billion in FY 1984 and nearly \$40 billion in 1985. This is bad policy. Such tax increases would occur just as we hope the economy will be struggling to prolong what has been a paltry recovery to date. Make no mistake about it, we are not witnessing a typical, postrecession recovery. First quarter GNP data shows that the economy grew at an annualized rate of 3.1 percent in real terms. This is only half of the average first year growth experienced as America emerged from the previous recessions that have occurred since World War II. While many factors, including substantial international economic uncertainty, combine to lower our economic expectations in 1984, economists are unanimous in one conclusion: the recovery will be fragile and its extent uncertain. In this context, substantial new taxes will be counterproductive.

This \$30 billion FY 1984 tax increase will lower by 33 percent anticipated new disposable personal income in FY 1984. In addition, the tax hike will lower anticipated GNP growth 0.7 percent, or \$11 billion. My judgment is that in 1984 we need the lowest possible tax burden if we are to have a broad-based, consumer-led recovery. Therefore, I will lead the fight on the Senate floor against the tax recommendations contained in this budget resolution.

As a final note on spending, I would encourage careful consideration of the resolution's recommendation on defense spending. This Committee, led by a bipartisan group of members, has been the driving force since 1978 for higher defense spending. In an effort to overcome serious neglect of our national defense forces during most of the 1970's, the Committee has advocated real growth of between 3 and 8 percent for each of the past 5 years. The budget resolution we have reported to the full Senate continues that effort. The 1984 recommendation of the Committee would yield 5 percent real growth for national defense for that year and for the entire 5-year period. Combined with the actions advocated by the President and approved by Congress during the past 26 months, this would mean a 40-percent real growth in defense spending in less than 4 years. This unprecedented peacetime growth would continue through 1986, if the recommendations of this resolution are followed. Finally, approval of our recommendation would give the administration \$1.64 trillion of the \$1.76 trillion 5-year increase it sought—or, about 94 percent of the President's request.

I personally can support a slightly higher level of defense spending for 1984, although I believe that 5 percent real growth sus-

tained for another 5 years is proper, prudent policy. Therefore, if it is the will of the Senate during debate on this resolution, that the defense number increase, I will join that effort. However, we cannot avoid subjecting defense spending to the same scrutiny as that given other spending areas within the budget. The Committee showed during extensive debate on this subject that it is deeply concerned about multibillion dollar weapons cost overruns and tax spending procedures in the Pentagon. My view is that defense spending must become more efficient and less wasteful if the consensus for rebuilding our Nation's armed forces is to be sustained in the country at large.

As a final commentary, I should point out to everyone concerned with the large projected deficits, both in the President's budget and in this budget, that we must take action that will bring out-year deficits down further than now expected. I agree with those who say that little can be done to reduce the 1983 deficit and that the 1984 deficit, too, cannot be cut much further than this resolution anticipates. However, we must recognize Congress' role in these deficits. In 1981, the Senate Budget Committee, on a bipartisan basis, warned that the policies about to be adopted by the Congress could lead to massive deficits. The Committee's efforts to change cost-of-living adjustments across the board in government programs was rejected by the administration. Later that same year, members of the Committee again attempted to take action that would cut tens of billions from projected deficits through actions to limit growth of entitlements. That attempt was defeated within the Committee by a 12-10 vote.

Early in 1982, many on the Committee again warned that failure to change entitlement spending and the 1981 congressional decision to cut taxes far more than originally requested by the administration would lead to the largest deficits in our history and a disastrous collision with monetary policy. Unfortunately, the Committee's predictions have proved accurate. Now, the Federal budget contains deficits larger than any experienced by the Nation before. These deficits, combined with the modest recovery now underway, make the work of the Congress more difficult than ever. Caution must be the by-word during the next 2 years as we attempt to reach that "steady-state budget" I believe the resolution reported by the Committee approximates such a steady-state budget and I believe that it should be adopted as public policy, after reducing the recommended tax increases in 1984 and 1985.

PETE V. DOMENICI.

ADDITIONAL VIEWS OF SENATOR NANCY LANDON KASSEBAUM

This concurrent resolution on the budget represents a consensus response by the Senate Budget Committee to the fundamental economic problems, and improving economic prospects we confront as a nation. The resolution provides the Senate with a framework from which the national problems of increasing deficits, high unemployment, and low economic growth can be addressed. Represented within this document are the collective perceptions of 22 Senators with respect to the most effective approach to responding to these problems.

Politics is frequently described as the art of compromise. The congressional budget process provides an arena in which that discipline is practiced in its purest form. When all parties act in good faith the process is arduous—but the product is policy agreement. Various views are systematically folded into national economic policy.

In the course of protracted debate over this resolution, the prospect of government by consensus became anathema to some. The temptation to assume a posture of intransigence is one that strikes us all from time to time. Fortunately, most of us usually come to the realization that the alternative to government by consensus is government by decree; a subject on which the Founding Fathers had much to say. Constitutional admonitions notwithstanding, the budget process stalled under its own weight in the course of deliberations.

To reconstruct the litany of negotiations, discussions, and delays of the past 2 months would serve little purpose. Suffice it to say the Committee was initially divided over three major issues: defense spending growth, domestic spending restraint, and taxes. The divisions, in most cases, crossed party lines.

On the issue of defense spending alone, philosophical, economic, and military considerations had the Committee widely divided. Within the confines of the Republican membership, individual positions on appropriate growth rates for military spending ranged from freezing budget authority at FY 1983 levels to allowing 10 percent after-inflation growth in FY 1984. After extensive debate the Committee adopted a consensus target of 5 percent real growth in budget authority, a position I could support.

Through negotiations, as well as deliberations, the Committee demonstrated remarkable resolve in exercising restraint over the

growth of non-defense spending. Committee-reported levels for such spending are \$20 billion below the level passed by the House for the same domestic programs.

On the issue of revenues, the process failed. Members of the Committee advocated positions ranging from a \$381.5 billion increase in taxes over 5 years to an absolute prohibition on any increases whatsoever. I have fundamental reservations about raising taxes. I have technical objections to raising taxes at the onset of an economic recovery. But, like the President of the United States, I have serious concerns for the long-term health of any nation that is willing to ignore the economic implications of allowing deficits to go unchecked, at a level in excess of \$200 billion, into the entire foreseeable future.

The President's revenue recommendation to the Committee provides for minimal tax increases during FY 1984 and FY 1985. Larger contingency increases are contemplated over the following 3 years. Such a course of action would insure that the recovery is not jeopardized in its fragile early stages by depressed consumer demand. Once the recovery is entrenched, the President's plan will reduce the pressures of excessive Government demand for credit that, unchecked, would collide with renewed private demand for money and push interest rates back to the 20 percent levels of the late 1970's. Ignoring the need for such a revenue policy is a prescription for economic stagnation.

I believe the President is absolutely correct in his position on tax policy and I supported his proposal in the Committee. A majority of Republican members of the Committee were willing to accept the President's revenue numbers as the basis for compromise on which a serious budget deadlock could be resolved. Inherent within the framework of that compromise were provisions for party support of defense spending levels above those tentatively approved by the Committee, as well as additional restraint on non-defense spending. Unfortunately, the prospect of having no resolution at all and institutionalizing \$200 billion deficits proved insufficient to sway 12 Republican votes to the President's compromise plan.

After twice having voted for the President's revenue numbers in Committee and twice seeing those numbers fail, I joined with Chairman Domenici and Senators Andrews and Gorton in resolving the revenue deadlock. In voting for the Chiles revenue numbers, I cast a vote to insure we will have a budget resolution. I cast my vote without apology or reservation. I voted likewise in support of final passage of the resolution. The measure can now go to the floor of the Senate.

As does Chairman Domenici, I remain committed to the President's revenue proposal. I will be supporting that proposal on the floor of the Senate. I am confident of the prospects for success. The Nation is coming out of a 4-year recession and I believe the Senate will adopt a budget resolution calculated to maximize the benefits of the recovery. The President has provided a sound approach to achieving that goal.

Engineering the failure of this budget resolution was perceived in some quarters as an easy solution to the parochial political problems of taxes and national defense. If that effort had succeeded, prospects for long-term improvement in deficits, interest rates, and, in turn, the recovery itself, would have been diminished.

NANCY LANDON KASSEBAUM.

ADDITIONAL VIEWS OF SENATOR SLADE GORTON

When the history of the budget process is written I am sure that 1981 will be known as the year of the President and that 1982 will be called the year of the Senate Republicans. While it is too early to put a label on this year, I am afraid that it may be known as the year of living dangerously. The economy is just beginning the recovery from the worst recession in post-war years. The continuation of the recovery, on which the economic hopes of most Americans depend, is threatened by the continuation of high real interest rates. I believe that real interest rates have remained high, despite the fall in inflation rates, precisely because the Federal Government will run huge deficits for the rest of this decade unless this Committee acts to stem the flow of red ink. Should three digit budget deficits continue for the rest of the decade, I am certain that we shall see the return of inflation and the continuation of the recession/stagnation scenario that has characterized the first years of the decade. Huge budget deficits are simply not consistent with the return of prosperity.

This resolution can only be considered the beginning of this Committee's efforts, which will of necessity span most of this decade, to come to grips with the problem of huge Federal deficits. It is not politically possible to complete the job in one resolution, indeed it may not be possible to do it in five. Yet if the recovery is to continue, if interest rates are to fall, it is necessary to convince the financial markets that we in Congress are serious and that we mean to work steadily toward the goal of bringing the finances of the Federal Government under control. In order to do this it is fitting that we pass, as we have, a bipartisan resolution. It is also necessary that we pass, as we have, a resolution that shows steadily declining deficits, a resolution that moderates the growth in spending in both the discretionary and entitlement programs, and a resolution that shows our willingness to raise revenues as well as cut spending. This resolution produces a good budget—a budget that is as good as we could hope to obtain given the political realities of today.

While this budget is a good budget, it is not a perfect budget. I introduced in the mark-up book what I consider to be a better budget. My budget reduced spending substantially more than does this resolution and raises a bit less in revenues. My budget, by freezing expenditures and tax cuts, would have dealt decisively with the huge projected deficits bringing the budget close to balance by 1988. I designed my budget to deal with economic realities—to address the basic roadblock standing in the way of econom-

ic prosperity. But this Committee must not only deal with economic reality, it must deal with political reality. There were not the votes to adopt my resolution in its entirety, in fact there were not the votes to adopt any single budget proposal in its entirety.

Each member of this Committee had to decide whether he or she could compromise and vote for a resolution that none considered ideal but each for different reasons. The risk in not compromising was to operate the Federal Government for a year without a budget, to consider each authorization and appropriation bill on its own merits and without regard to the whole. Should this have occurred, the Federal Government would certainly have returned to the old ways before the Budget Act which would have been disastrous to the economy. Indeed the spokesmen for the administration who offered a compromise solution clearly pointed out the folly of proceeding without a budget. The administration's compromise proposal would also have been a good budget, not a perfect budget by any means, but better than no budget at all. Many of my Republican colleagues could not accept the President's compromise because of some or other feature just as they could not for similar reasons accept the various plans proposed by the Chairman of the Committee. I supported the attempts of the Chairman to produce an acceptable budget resolution. I supported the administration's attempt to forge a compromise. When all attempts had failed to obtain sufficient Republicans to pass a resolution, I supported the Chairman of the Budget Committee and voted for this budget resolution.

I did so because a good resolution, even if it is not perfect, is so much better than the economic chaos that would result from no resolution at all, which would have been the result of continued stalemate in the Committee. I hope to improve the resolution on the floor. I urge all of my colleagues to do the same, but if their attempts and mine fail, I urge them to recall what Plato said: "The perfect should not be the enemy of the good."

SLADE GORTON.

ADDITIONAL VIEWS OF SENATOR LAWTON CHILES

We have reported a budget resolution.

It was a struggle. But it was a struggle of good will rather than bad faith, and accomplished within the framework of a maturing congressional budget process. With persistence, we believe we can convert this bipartisan agreement into a bicameral budget, a joint program of both parties and two Houses pursuing the one goal of a renewed American economy.

This resolution is reported just as economic recovery appears to have begun despite administration policy over the last few years. But, the recovery is an infant, new and fragile. High interest rates threaten it. Had we been unable to adopt a budget resolution, a strong signal would have been sent to the credit markets that deficits as usual were acceptable to this Congress. Growing deficits would have fueled a resurgence of interest rates and aborted the recovery.

If we are not firm in defending the work of the Committee to reduce the 1984 and 1985 deficits, a credit crunch could occur as private borrowing for houses, autos and business picks up in the coming years. Therefore, it is important that we keep in place the revenues this resolution will generate, not revenues born of new tax increases, but revenues reclaimed by avoiding further tax cuts.

While our economic problems remain severe, the congressional budget process had helped head-off "what might have been"—still higher deficits, substantial inequity, and an eventual slide into one-party, executive budgeting. We believe that Democrats have helped prevent those things through active involvement in this year's budget process after two years of exclusion.

Democrats were successful this year in making two critical points prevail in the Budget Committee. First, there is simply no way we can continue paying for tax cuts with money we don't have. Those tax cut-dollars become deficit-dollars the instant they are approved.

This year, there was basic bipartisan agreement that we could not cut domestic programs any further than we already had without imperiling the well-being of millions of needy people. That left us with two ways to cut the deficit; restrain defense spending, and find more revenues. Democrats made it clear from the beginning we were determined to cut the deficit regardless of the administration's willingness to defend it. The Democratic position prevailed in

the Senate Budget Committee. This budget resolution, therefore, is a step forward. But it is not without imperfections. The most serious shortcoming is a Federal deficit that's still too high.

Under the terms of this resolution, the deficit in Fiscal 1984 will be \$163.3 billion, almost \$11 billion below the House-passed resolution. Yet, the President's budget contained a Fiscal 1984 budget deficit of \$185 billion. The President's budget also included deficits of \$179 billion in Fiscal 1985; \$149 billion in Fiscal 1986; \$161 billion in Fiscal 1987; and, \$160 billion in Fiscal 1988.

The budget resolution reported by the Senate Budget Committee contains deficits of \$147.0 billion in Fiscal 1985; \$133.2 billion in Fiscal 1986; \$135.1 billion in Fiscal 1987, and; \$123.6 billion in Fiscal 1988.

The deficits in this resolution are still high, but lower than those projected by the White House, and on a definite downward slope in each succeeding year. In fact, the deficits in this resolution are lower in every year than those recommended by the President: \$37.1 billion lower in Fiscal 1984; \$32.1 billion lower in Fiscal 1985; \$16.0 billion lower in Fiscal 1986; \$25.9 billion lower in Fiscal 1987, and; \$36.7 billion lower in 1988. That's \$148 billion less in red ink over the next five years.

This is the resolution's key virtue. It should be a clear indication that this Committee and the Congress, generally, recognize that federal deficits which remain high will continue to push interest rates higher. And, as long as interest rates are high, they will tax the American worker every time he or she buys anything on credit. With that kind of drag on the national economy, we may have economic rebounds, but we will never achieve durable economic recovery. Thus, while we cannot excuse the size of the deficits, we believe their downward path is essential for the long-range health of the economy.

The following table illustrates as percentages of the Gross National Product, the impact of this resolution in the major areas of the budget. Even after restraining real growth to 5 percent, outlays for national defense will *rise* from 6.7 percent of GNP in Fiscal 1983 to 7.6 percent in Fiscal 1988. Outlays for nondefense discretionary spending *decline* from 4.6 of GNP in Fiscal 1983 to 3.6 percent of GNP in Fiscal 1988. Entitlement spending *declines* from 12.0 of GNP to 10.4 in Fiscal 1988. Since by 1988 each 1 percent of GNP equals about \$50 billion, this is substantial restraint. The overall effect of this resolution is to dampen spending to the extent that outlays for interest on the national debt will be *reduced* by nearly \$57 billion by 1988.

MAJOR COMPONENTS OF THE BUDGET AS A PERCENT OF GROSS NATIONAL PRODUCT

	Fiscal year—						Change
	1983	1984	1985	1986	1987	1988	
National Defense:							
Outlays	6.7	6.9	7.1	7.2	7.4	7.6	+0.9
Nondefense discretionary:							
Outlays	4.6	4.5	4.2	3.9	3.8	3.6	-1.0+
Entitlements:							
Outlays	12.0	11.0	10.7	10.5	10.4	10.4	-1.6
Revenues	18.9	19.6	20.0	20.0	20.2	20.4	+1.5

DEFENSE

The First Concurrent Budget resolution approved by this Committee includes some major choices. It reflects, first of all, a pervasive bipartisan conviction that our national defense needs to be strengthened. It, therefore, provides for a real five percent growth in spending for our military. In Fiscal 1984, the budget resolution allows for \$267.0 billion in budget authority, an increase of \$22.9 billion over 1983 and enough to add new and needed muscle to our defense readiness capability.

The defense choices assumed by this Committee combine the notion that we need a strong defense with the view that we need an economy strong enough to build it. Every member of this Committee felt the pressure to increase defense spending to the higher level sought by the White House. Yet many of us were, and remain, skeptical about the capacity of American industry to absorb those larger annual outlays. Moreover, at a time when every sector of the economy has had to accept some measure of restraint, we believe immunizing the defense sector would have jeopardized public support for the necessary defense improvement.

The Democrats on the Senate Budget Committee believe, therefore, that the defense numbers in this resolution are consistent with a steady modernization of our armed forces, and a national belief that we must do what is reasonable in a troubled world to defend our country.

REVENUES

On the question of revenues, the choices before the Committee were no less difficult. Democrats found no wisdom in the arguments of those who insisted that we should cut taxes more in the teeth of huge Federal deficits. Virtually nobody argues that two years of massive tax cuts have prompted the current recovery. Recovery began as a result of last year's tax increase, coupled with a more accommodating monetary policy.

Through long days of budget discussion—in full Committee, and, informed by public hearings with the Nation's most noted economic experts—we sought revenues adequate to hold back the growth of deficits. At least five different proposals were put to a vote in Committee before we arrived at a revenue number that provides both equity and deficit reduction. The key was the last revenue vote taken when the Committee endorsed the Democratic proposal to head off another \$148 billion deficit expansion between Fiscal 1984 and 1988. While the adopted revenue number seems large, it is less than a fifth of the amount by which tax cuts have exceeded spending cuts. The Committee agreement made it clear that deficits must be cut this year, and in each of the years ahead.

There can be no doubt that the structural deficit so often mentioned during this year's budget debate rises largely from earlier tax cut action. As the following table illustrates, previously enacted tax changes raised the Federal deficit by \$859 billion between 1982 and 1988. The table also shows that previously enacted cuts in non-defense spending reduced the deficit by \$387 billion. Democrats believed it was necessary to attack the deficit at its source. Since the largest source of the deficit was revenue policy, we adjusted that policy. Democrats proposed that approach and the Committee endorsed it by a margin of three to one.

The table below shows the situation that existed prior to adoption of the Budget Resolution by the Committee. As a result of the Committee's action, the revenue increases are only a fraction of the \$757 billion by which the tax cuts exceed the spending cuts.

INCREASE IN THE DEFICIT ATTRIBUTABLE TO CONGRESSIONAL POLICY ACTION

(Fiscal years; billions of dollars)

	1982	1983	1984	1985	1986	1987	1988	Total
Tax reduction.....	38	68	93	121	154	178	207	+860
Defense spending increases.....	1	15	27	47	65	65	65	+285
Nondefense spending cuts.....	-42	-47	-56	-59	-61	-61	-61	-387
Net change in deficit due to policy action.....	-3	36	64	109	158	182	211	+757

Source: CBO baseline budget projections for fiscal years 1984 and to 1988.

If the size of the deficit generated by the tax cut concerned us—and it did—the lack of equity in tax policy under the Reagan administration concerned us just as much. That concern is graphically demonstrated by information supplied by the non-partisan Congressional Budget Office (CBO).

The CBO analysis found that households with less than \$10,000 in annual income actually lost \$320 as a result of the earlier tax cuts. For those with annual incomes between \$20,000 and \$40,000, the gain added up to just \$710. However, *households with annual incomes over \$80,000 actually gained an average of \$14,000.* Moreover, the net cost to the Treasury—the net increase in the deficit

and net extra cost to the other taxpayers earning less than \$80,000 annually—was nearly \$21 billion a year.

While there are any number of ways to find necessary revenues under this budget resolution, Democrats believe that a spirit of equity requires a modification to protect low and middle income people.

DOMESTIC SPENDING

As much as Democrats are aware of the need to restore adequate revenues in the fight to shrink budget deficits, we also appreciate the need for continued restraint in domestic spending. While we acknowledge that restraint must go on, the nation is still faced with the need for long-term investments in programs like education and science training. We need a long-term commitment to the basic scientific research which feeds industrial technology. We need an increased commitment to our "domestic defense" to fight crime. And we see the necessity for extending the programs that defend the deeply needy from the pain of the recession.

For those reasons, this budget resolution accommodates the Social Security reform package approved with bipartisan backing by the full Senate. The resolution also makes room for an essential jobs program to aid those who have been out of work so long as a result of the recession.

Each addition represents a necessary expenditure focused on those who need help the most. We will state, candidly, we wish the amounts could have been higher because the need is indisputable. But, in an era of limits, we have done the best that could be done while still keeping an eye on the general benefit that will flow to the working force from an economy restored to an even keel. We hope that some of the necessary funds can be restored in the full Senate or in conference to help repair the cuts in Medicare, for example, which were too deep.

Overall, we believe some general conclusions can be drawn from this first concurrent budget resolution and the process that created it:

- Recovery is occurring in spite of what administration policy has done to the economy in the last two years. Democrats believe we must take the prudent steps required to contain federal deficits as a means of sustaining the recovery.
- It is the belief among the Democrats on the Budget Committee that the resolution affirms the worth of the Congressional Budget process. It underscores the need for bipartisan involvement in a budget process too often dominated by the executive branch. And, if the congressional budget process seems to have occupied an inordinate share of our time, it is only because the economy itself had demanded so much of our attention.
- Democrats aren't completely satisfied with this budget resolution. Yet, Democratic actions in this year's process make it clear we stand for certain core beliefs, including: economic recovery and low interest rates through reduced federal deficits;

a restrained fiscal policy coordinated with a less rigid monetary policy; equity, especially for those who have suffered the longest with the recession at its deepest; fairness, such that no sector of the economy is immune to the contribution necessary for strong recovery, and; jobs.

- We reaffirm the need for modernization of the American defense force at a rate consistent with the overall economic health of the nation.
- We reassert the belief that the Federal reserve must be an active partner in achieving economic growth.

Finally, Democrats recognize that the preliminaries are over. This budget resolution is only round one in a prudent and disciplined policy of economic restoration already delayed too long. There is much work to do. There may even be changes when this resolution reaches the floor of the Senate. Yet, one fundamental change has already been made, and that is the fact that both parties have, at last, had a voice in the budget process.

There should be no illusion about the conditions that produced this resolution. The Republican members of this committee were, by their own admission, deadlocked among themselves over revenue levels. Democrats on the Committee were united in the belief that federal deficits are so corrosive that adequate revenues—in addition to restraint of defense and domestic spending—were required to cut the deficits before they knocked the economy off its hinges.

It is to be expected that this resolution will be tested on the Senate floor by those who believe high federal deficits are tolerable. Nevertheless, Democrats are convinced that the deficit reduction measures in this resolution are essential, and we will continue to do all we can in the pursuit of a realistic and effective budget.

LAWTON CHILES.

ADDITIONAL VIEWS OF SENATOR J. BENNETT JOHNSTON

Two years ago, the Senate Budget Committee undertook dramatic action to change the direction of fiscal policy and put us on the road to a balanced budget in FY 1984. In that plan, which covered the FY 1981-86 period, outlays were projected to decline from 23.3 percent to 18.7 percent of GNP; revenues were to decline from 21.1 percent to 19.5 percent; and the projected deficit of \$62.8 billion in FY 1981 was expected to dissolve into a balance in 1984, with a \$39.2 billion surplus by 1986.

That this gamble was turning sour was readily apparent by the fall of 1981, when the administration submitted drastic changes in its 6-month-old budget plan. After another 6 months, the forecast had taken an even more draconian plunge. The Committee and others heard unbelievable projections of baseline deficits rising to heretofore unheard of triple digit levels, of over \$100 billion in FY 1982 rising steadily to \$146 billion in FY 1983, to \$165 billion in FY 1984 and to \$168 billion in FY 1985. Even more surprising was the administration's FY 1983 budget plan to reduce these deficits, a plan which implicitly accepted deficits at historically high levels throughout the entire projection period, rising (according to OMB) to the then unprecedented level of \$99 billion in FY 1982 and declining modestly to \$74 billion by FY 1985, \$7.6 billion greater than the highest deficit we'd ever experienced up to that point, \$66.4 billion.

Even with the major actions the Committee approved in the spring of 1982 to make needed mid-course corrections in the direction of the 1981 plan, and nudge our economic course back toward sanity, the possibility of a balanced budget within the 3-year projection period covered by the resolution had disappeared and we were left with deficits of above \$39 billion in 1985, with the public debt rising by well over \$200 billion in the 1982-85 period.

To state that many received with shock the news earlier this year that baseline deficit projections *began* at \$200 billion in FY 1984, double the \$100 billion deficit we gaped at in disbelief one year before, and steadily rose to over \$260 billion by 1988, is at best an understatement. Imagine, in 3 years, changing so quickly the definition of "shocking and unacceptable deficits" from \$66 billion to \$268 billion, a 400-percent change in 3 years. Almost as incredible was the President's FY 1984 budget, which included total tax increases of \$200 billion by 1988, and still recommended deficits of \$208 billion in 1983, declining to \$117 billion in 1988 according to

OMB (and declining to \$158 billion in 1988 according to the CBO), declining to a point that was \$17 billion higher than the FY 1982 deficit we found totally unacceptable 1 year before. Even with the pain of a \$200 billion tax increase and net spending cuts of over \$130 billion from the baseline, deficits would still remain substantially above \$100 billion in 1988.

Since the First Concurrent Resolution in FY 1982 which incorporated the economic recovery plan, then, the possibility of the long-promised balance has disappeared from the furthestest projections, spending has continued to increase as a percent of GNP, revenues have dropped radically, and the public debt has grown in monstrous terms to over \$1.6 trillion in 1984 from \$1 trillion in 1981. To put it another way, in over 3 years we will be adding \$600 billion to the public debt or more than total Federal outlays for all spending programs were in 1980.

The following table summarizes these changes.

[Percent]							
	1980	1981	1982	1983	1984	1985	1986
Outlays as a percent of GNP:							
SBC FY 1982		23.3	21.9	20.3	19.3	19.3	18.7
Reagan FY 1984 ¹				25.1	24.0	23.7	23.5
(Actual)	(22.5)	(22.9)	(24.0)				
Revenues as a percent of GNP:							
SBC FY 1982		21.1	20.4	19.7	19.3	19.5	19.5
Reagan FY 1984				18.7	18.9	19.0	² 20.3
(Actual)	(20.1)	(20.9)	(20.4)				
Deficits as a percent of GNP:							
SBC FY 1982		2.2	1.5	0.5	0	(³)	(⁴)
Reagan FY 1984				6.0	4.7	4.5	3.5
(Actual)	(2.1)	(2.0)	(3.6)				

¹ As re-estimated by CBO.

² Includes over \$30 billion in contingency taxes.

³ 11.9 billion surplus.

⁴ 39.2 billion surplus.

Clearly, deficits of the size now contemplated which extend throughout the recovery period are cause for serious concern. Last year in testimony before the Senate Budget Committee, OMB Director Stockman warned, "A recession deficit is one thing; a rising deficit during the recovery period, where there is certain to be a clash between the borrowing demands of Government and the rising needs of the private sector is intolerable and impermissible." I submit that deficits which only come down marginally, to over \$130 billion 3 years after the recovery has begun, are equally dangerous to sustaining a healthy, growing economy.

The President's Economic Report, submitted to the Congress in February of this year, underscores this danger. The following excerpt presents the case for concern cogently:

A succession of large budget deficits is likely to reduce substantially the rate of capital formation. The Government's borrowing to finance such deficits would compete directly with borrowing by private businesses and households. With a limited amount of savings available for borrowing, high budget deficits would cause interest rates to rise until private demand for funds was reduced to the amount that remained after the government's borrowing needs were satisfied.

The magnitude of the potential crowding out of private investment is immense. During the past 2 decades, the net saving of households and businesses totaled only about 7 percent of GNP. Prospective deficits of more than 6 percent of GNP would represent virtually all of current net savings. Even though existing saving would be augmented by borrowing from abroad and by some increase in the private saving rate, the reduced rate of capital formation would be very substantial.

A lower rate of capital formation would have adverse consequences because the accumulation of capital is a key determinant of future increases in productivity and economic growth and therefore of higher real wages and standards of living. Further reductions in the rate of capital formation would be particularly unfortunate because . . . the U.S. rate of capital formation has been undesirably low for several decades. In the years since 1960, net private investment has averaged only 6 percent of GNP, significantly less than the rate in most major industrial countries. Moreover, since half of this 6 percent has gone into housing, only about 3 percent of GNP has been available for productivity-increasing investments in plant and equipment.

In the extensive hearings the Committee held in preparation for the markup, public as well as government witnesses expressed serious concern about these deficits, larger and more sustained than we have ever had the misfortune to experience. The need for dramatic action was highlighted time and again. For me, one of the most impressive presentations was made by a bipartisan group of former Cabinet secretaries whose tenure spanned the 1960's and the 1970's. This group recommended a plan aimed at reducing deficits as a percent of GNP to 2 percent by 1985, which would require a reduction plan totalling \$175 billion over 2 years, and would result in a balance by 1986 or 1987 at the latest. Compared to the President's deficit reduction strategy, this strategy would save an additional \$117 billion over the next 2 years, saving \$30 billion in lower interest payments alone. Moreover, this plan was based on a carefully crafted balance between non-means-tested spending reductions and revenue increases, recommending \$85 billion spending reductions and \$60 billion in revenue increases (59 percent spending cuts and 41 percent revenue increases), compared to the President's plan to reduce spending by \$42 billion and increase revenues

by \$10 billion (81 percent spending cuts and 19 percent revenue increases) in 1984 and 1985.

The Committee did, I believe, heed the warnings of witnesses such as those of the Peterson group described above by trying to take balanced action to reduce spending not targeted for the most needy and increase revenues to close the serious deficit gap, reducing the deficit by \$117 billion more than the President's proposal over the FY 1984-88 period, and resulting in a 1988 deficit almost \$35 billion below that recommended by the President.

Even with the substantial changes recommended by the Committee, however, the deficit in this year remains over \$200 billion and declines 5 years later, in 1988, to over \$123 billion, or almost double the highest deficit in history prior to the first Reagan budget in FY 1982. Moreover, this plan would add half a trillion dollars to the Federal debt in the 1984-86 period, accomplishing in 3 years a level of debt that it took our nation from 1789 to 1975, over 180 years, to amass.

In my view, the Committee made substantial progress in reducing deficits and the hefty Federal borrowing requirements which result from deficits. However, these deficits remain so high that I fear that real interest rates may soar and the recovery could be aborted. Under the Committee plan, deficits decline from 6.2 percent of GNP in 1983 to 2.5 percent in 1988. However, given average net total saving of households and businesses of roughly 6 percent of GNP since 1960 and the fact that roughly half of this has been invested in housing, only 0.5 percent of GNP would be available to finance productivity-increasing investments in plants and capital by 1988, and less before 1988, if deficits remained 2.5 percent or higher.

I believe it is critical for a sustained, healthy recovery that deficits be reduced even more and I intend to work for such changes when this resolution is debated on the floor.

J. BENNETT JOHNSTON.

ADDITIONAL VIEWS OF SENATOR JIM SASSER

Two years ago, the adoption of a budget resolution by this Committee projecting a budget deficit of \$163 billion would have been unthinkable. The times in which we live however are ever-changing. Today, the prospects of sub-\$200 billion deficits elicit cries of joy and accomplishment among those familiar with the budget process.

Over the past 2 years, the Nation has witnessed first hand the devastating effects of an ill-conceived and unworkable combination of economic policies. Record levels of unemployment, business failures, home and farm foreclosures, and high "real" interest rates have become the waste by-products of the Reagan revolution.

The administration's prescription of stimulative fiscal policy in the face of overrestrictive monetary policy has exacerbated, in fact accelerated the decline in the economic condition. With such a truly disjointed economic program, it is little wonder that the results have been directly contrary to those intended.

The Reagan economic experiment has taught us some very valuable lessons. First, it does not work. Second, it has been very costly, both in economic terms (with the highest deficits in the history of the Republic), and in terms of human misery (with the highest levels of unemployment since the Great Depression). Third, it is grossly inequitable to the extent that it heavily impacts upon those in the lower and moderate income brackets while disproportionately benefiting those in the wealthiest income brackets. Lastly, it has served to highlight the importance of effective coordination between fiscal and monetary policy.

It is important to pinpoint past failures because of the insights they provide for future decisions. The important question facing us however, is not so much where we went wrong, for the answer is painfully clear to most, but where we go from here.

The budget resolution adopted by this Committee attempts to address fundamental questions about the economic course we must chart for the immediate future. The Committee has let it be known that economic recovery will not be had unless we exercise prudent and responsible fiscal restraint. Such fiscal restraint comes not through spending reductions alone, but rather through a balance between spending reductions and revenue increases. The mix contained in this resolution is, I believe, an appropriate one.

While a good argument can be made for lesser spending restraint, the spending reductions embodied in this resolution are

reasonably acceptable. It should be noted, however, that I have some reservations as to the exact levels contained in the function 600 totals and will explore this in greater depth on the floor.

On the revenue side, it is apparent that without substantial increases, a significant reduction in future budget deficits would not be possible. These additional revenues should be derived from some modification of the third year tax cut and either elimination or deferral of the indexing provisions. At this time we simply cannot afford either.

MONETARY POLICY

It is unfortunate that there was no discussion of monetary policy during the Budget Committee deliberations. The need for and desirability of a coordinated fiscal/monetary policy approach was undeniable last year and resulted for the first time in inclusion of monetary policy language in the First Concurrent Budget Resolution for FY 1983.

Some members have suggested language which would direct the Federal Reserve Board to conduct a growth-oriented monetary policy consistent with postwar economic recoveries. I wholly support these efforts.

Calls for monetary accommodation are not made within a vacuum. Recently, several Nobel prize winning economists were questioned on what, in their estimation, was needed to get the economy moving again.

Dr. Lawrence Klein, a 1980 Nobel prize winner, concluded that to date monetary and fiscal policy have been working at cross purposes. He maintains that in order to reduce the large deficits we should eliminate the third year tax cut, trim military spending, and continue monetary stimulus.

Kenneth Arrow, 1972 Nobel prize winner, stated that continued monetary ease in an effort to reduce interest rates is the most important step at this point. He maintains that with the huge unemployment and idle capacity, there is little risk that additional monetary ease would reignite inflation.

James Tobin, a 1981 Nobel prize winner, states that "to say that you're afraid that an expansionary monetary policy at this stage would touch off an acceleration of inflation is to say that you don't want a recovery, because recovery can't occur without a further relaxation of monetary policy".

Paul Samuelson, a 1970 Nobel laureat, concludes that inflation has improved dramatically and therefore is not in danger of reignition. The Fed should continue, in his estimation, to allow more growth in the money supply until we are definitely in a healthy recovery.

UNEMPLOYMENT

A major casualty of the Reagan budget and economic policies has been the abandonment of the notion of the full-employment economy. During the early years of the budget process, this objective was a clearly stated goal. In the past 2 years, however, Republican budget resolutions have come and gone with scarcely a mention of this important concept. Given the administration's record on unemployment, this should come as no surprise.

I believe that it is time to reinject this ideal back into the mainstream of budgetary discussion. It is time to once again use the concept of full-employment as a measuring stick to gauge the effects, both short-term and long-term, of budget decisionmaking.

The current level of unemployment presents a formidable barrier to the achievement of a healthy, productive society. And there is little hope that the situation will improve anytime soon unless we deviate from the high-interest rate, high-unemployment policies of the present administration. Today, over 11 million Americans are out of work, nearly 2 million have become too discouraged to seek work, and some 6 million who wish to work full time can only find part-time work. This situation is abhorable and must be reversed.

The passage of this resolution signals to the administration that deviation from the present economic course is overdue. To a great extent, the passage of this resolution was made possible by Democratic insistence on the achievement of lower budget deficits. The budget deficits under the resolution, while still too high, are almost \$30 billion lower in FY 1984 than the latest administration estimates.

Without a significant reduction in the burgeoning Federal budget deficit, the likelihood of an aborted economic recovery becomes great. Such a circumstance would exact even greater sacrifices from the American people than they have heretofore made. They have already been asked to give more than they can afford.

It is incumbent upon those of us in the Congress to prove not only to the financial markets but to the American people that we are capable of putting our house in order. This requires hard decisions and responsible action. The Democrats have shown that they are up to the task, and to the extent that this resolution exhibits such action, Democratic unity on the difficult questions of adequate defense spending, reduced social spending, and increased revenues can be largely credited for securing its passage.

This budget resolution, while far from perfect, represents an extremely important move in the right direction. It is my sincere hope that this constructive approach carries through to debate on the Senate floor. The future health of the economy hangs in the balance.

JIM SASSER.

ADDITIONAL VIEWS OF SENATOR DANIEL PATRICK MOYNIHAN

The 1984 budget resolution reported by the Senate Budget Committee is a strong bipartisan rejection of the President's failed economic policies. Moreover, this resolution represents a major step forward in the evolving budget process. Throughout the last months, this process has been threatened by stalling tactics and continual requests for delays on the part of the administration. The leadership of the Budget Committee responded to these tactics with courage and skill, producing a budget resolution that members of both political parties could endorse. Yet, my vote for this resolution does not reflect agreement with all of its provisions; rather it reflects my commitment to the integrity of the budget process and my conviction that the administration's policies have brought on the starkest economic failure in a half century.

Since the administration took office, the Federal deficit has climbed above the \$200 billion mark, the highest level in our nation's history. The President's proposed record deficits for the coming years are the direct result of massive increases in defense spending coupled with large tax cuts. Indeed we now face a succession of the largest budget deficits in American history, such that in 6 years we will add over one trillion dollars (\$1.014 trillion) to the national debt—an increase of 89 percent. These deficits will cost the Treasury some \$138.5 billion in interest expense, which was the size of the entire Federal budget as recently as 1967. Each month we will be paying more in interest alone on the Federal debt than the cumulative deficit for the first 16 years following World War II.

More tragically, the President's bankrupt economic policies have resulted in the lowest rates of utilization of labor and capital since the Great Depression of the 1930's. Unemployment reached 10.8 percent of the civilian labor force (more than 12 million people) in December 1982. An additional 6.4 million workers who preferred full-time work could only find part-time work, while another 1.8 million "discouraged workers" dropped out of the labor force because they thought no work was available. The nation's factories operated at only 67 percent of capacity last December.

Now the administration claims that we are entering a "recovery". Yet under the administration's own calculation, 2 years into this purported "recovery"—by the end of 1984—almost 11 million people will still be jobless. The administration's projections for real GNP in 1984 are only about 3 percent higher than in 1981, an average of 1 percent annual real growth. And by the administration's own forecast, 3 full years into its recovery, in 1985, real corporate

profits would still be less than they were before the great recession began. The need for congressional action to spur economic growth and increase employment is manifest.

SPENDING AND CREDIT

In a number of areas, particularly in education, income security, health and community and regional development, the Budget Committee voted levels that are substantially below those proposed in the House-passed budget resolution. I would have preferred to add inflation increases for all education programs consistent with the House-passed levels. Similarly, for the health and income security functions, I would have maintained discretionary programs at the 1983 levels, with the policy additions provided in the House resolution, particularly additions for medicaid, unemployment compensation, food stamps, child nutrition, and low-income housing assistance.

For nearly 2 years I have advocated adoption of a 5-percent increase in budgetary authority for defense. By a resounding, bipartisan vote, the Budget Committee has agreed that America's security can be effectively and safely maintained with a 5-percent increase. Budgetary constraints will dictate more rigorous scrutiny of the Defense Department's weapons procurement policies.

I proposed, and the Committee adopted, additional funding in the natural resources area of \$100 million for superfund and \$300 million for the American Conservation Corps. The administration had called for cuts totaling almost \$1.0 billion in this area between 1984 and 1988. EPA enforcement and pollution abatement efforts would have been reduced by 20 percent from FY 1983 levels under the President's request. The Committee's action defeats the President's proposal.

I also opposed the President's cuts in transportation, and am gratifying that the Committee adopted a current policy level plus inflation for mass transit. This measure will insure full funding of the amounts authorized in the Surface Transportation Assistance Act of 1982, rejecting the President's request to terminate Federal funding of needed operating assistance.

In the credit area, I co-sponsored a resolution to place the off-budget direct loans of the Federal Financing Bank on-budget. Due to its off-budget status, the credit activity of the FFB, an estimated \$17 billion annually, is exempt from the targets for authorizations and outlays in the resolutions set by Congress. The size of off-budget borrowing by the FFB is growing rapidly and distorting the calculations made by the Congress to bring the budget under control.

REVENUES

I do not believe taxes should be increased during periods of economic weakness. I voted for the revenue increases contained in this resolution because additional revenues are critically needed to offset the historically high deficit levels we now face. I do not be-

lieve it is necessary to repeal the July 1, 1983 individual income tax reduction in order to reach the revenue mark contained in the resolution. It can be achieved in a variety of ways, particularly through delays in indexing of individual income tax brackets, personal exemptions and zero bracket amounts now scheduled under present law to begin in January 1985. Additional revenues could be raised by closing tax loop holes and strengthening collection procedures.

The largest increase in revenue would be gained, however, through a reversal of the administration's economic policies and restoration of strong economic growth. One of the nation's preeminent econometric forecasting firms, Data Resources, Inc., has forecast that alternative economic assumptions, specifically a change in the mix of fiscal and monetary policies, could result in dramatically increased revenues. We have propounded economic assumptions based on our proposal to direct the Federal Reserve to coordinate monetary policy with fiscal policy so as to ensure sufficient growth in the nation's nominal GNP, producing real economic expansion comparable to the average rate for previous post-war recoveries (an average real annual rate of 5.4 percent for the first 6 quarters of recovery). The table below shows the dramatic revenue gains under this economic scenario, as estimated by the Congressional Budget Office:

**CBO PRELIMINARY REVENUE ESTIMATES—SENATE BUDGET COMMITTEE 1984
FIRST CONCURRENT RESOLUTION MARKUP MATERIALS—SENATOR MOYNIHAN'S PLAN**

[In billions of dollars]

	Fiscal year—					
	1983	1984	1985	1986	1987	1988
Baseline total revenues based on Senator Moynihan's economic assumptions of Mar. 17, 1983...	619.2	672.6	754.7	833.3	915.8	1,010.0
Social Security Act Amendments of 1983 (H.R. 1900) ¹		5.5	7.4	7.1	9.3	21.7
Defer indexing until Jan. 1, 1989			7.0	19.0	33.0	49.0
Total Revenue Change		5.5	14.4	26.1	42.3	70.7
Total revenues under Senator Moynihan's plan (based on Senator Moynihan's economic assumptions)	619.2	678.1	769.1	859.4	958.1	1,080.7

¹ As agreed to by the joint House-Senate Committee of Conference on H.R. 1900.

MONETARY POLICY

The issue of monetary policy is contained in this report but not in the resolution. The budget resolution is the Congress's only comprehensive statement on fiscal policy. Yet, the consequences of our fiscal decisions cannot be understood apart from the movements of

economic policy generally. That means we cannot make intelligent fiscal policy decisions without attending as well to monetary policy.

I have been making this point for some time now. It is the breathtaking failure of the current economic program—and in particular, the profound clash of overly-expansive fiscal policy and overly-expansive monetary policy, producing the worst recession since the 1930's—that has produced the largest deficits in this nation's history. Simply stated, our current budget crisis cannot be either understood or resolved in isolation from monetary policy.

I made this point last year. In March 1982, with Senators Riegle and Sasser, I introduced a budget alternative based on a fundamental shift in the mix of monetary and fiscal policy. I proposed to tie greater fiscal restraint to a more moderate monetary policy, based on the path for money growth advanced by the President in his *Program for Economic Recovery* of February 1981. The Joint Economic Committee, working with Data Resources, Inc., studied my plan and found it would have ended the recession in mid-summer of last year, and reduced the prospective budget deficits for fiscal years 1984 and 1985 to well under \$100 billion.

The majority of this Committee did not escape my plan, but I worked with the Chairman to fashion compromise language on monetary policy for last year's budget resolution. This language expressed the sense of the Congress that the Federal Reserve reevaluate its then-current tight-money targets. This language constituted the first direct expression of Congress's sentiments on monetary policy in the history of the Federal Reserve. And the Reserve eventually did reevaluate its tight money targets and, in the words of Leonard Silk, the distinguished economic commentator for the New York Times, "The Fed engineered this recovery by relaxing its grip on the money supply." Not soon enough, however, to avert tragic economic hardships for millions of Americans and escalating budget deficits for years to come.

In response, I advanced a proposal in early March with Senator Hart for more comprehensive monetary policy language for this year's budget resolution. This proposal directed the Federal Reserve to manage monetary policy, so as to ensure sufficient growth in the nation's Gross National Product to produce real economic growth comparable to the average rate for previous postwar recoveries. That would mean about 5.4 percent annual real growth this year and next.

It is imperative, in our view, that Congress state in an unequivocal way that the central goal of our nation's economic policy must be vigorous and sustained economic growth. Otherwise, we shall consign the nation to the slowest economic recovery in our history.

Once again, we asked the Joint Economic Committee and Data Resources, Inc., to simulate the economic consequences of our proposal, assuming measures of moderate fiscal restraint. The results were very clear:

- By 1985, unemployment would fall to 7.6 percent under our proposal, instead of the 8.9 percent projected by the administration under its mix of fiscal and monetary policy. That means 1,400,000 fewer jobless Americans than under the administration's program.
- Personal income would be 6.6 percent higher—\$208 billion more—in 1985 under our policy than under the administration's.
- Corporate profits by 1985 would be 28.6 percent higher under our proposal than under the administration's mix of fiscal and monetary policy.
- By 1985, the nation's Gross National Product would be \$203 billion more under our proposal, than under the administration's.

The United States needs economic growth, and that means coordinating fiscal policy with a growth-oriented monetary policy.

Working with the staffs of Senators Chiles and Domenici, we fashioned compromise language on monetary policy, the language contained in this report. The basic principles: a clear directive to coordinate monetary policy with fiscal policy; and a clear statement that vigorous economic growth must be the goal of this coordination:

It is the Sense of the Congress that the substantial and permanent reductions in the structural budget deficit contained in this budget resolution shall be coordinated with a growth-oriented monetary policy.

It is further the Sense of the Congress that, in light of these substantial reductions in the deficits for FY 1984 and beyond, and in light of marked reductions in inflationary pressures, the Federal Reserve System shall conduct monetary policy so as to foster vigorous economic growth consistent with previous postwar recoveries.

At the Chairman's request, I agreed to propose this language during the floor debate on this budget resolution, rather than in the Committee. I appreciate the difficulties reporting this resolution out of Committee, given the views of much of the majority. I acceded to the Chairman's request, so as not to do anything that might impede the budget process in any way. We will take this monetary policy language to the floor, where I trust the entire Senate will agree to an unequivocal statement that the Government's monetary and fiscal policies must work together to ensure the vigorous economic recovery the people of this nation need and deserve.

DANIEL PATRICK MOYNIHAN.

ADDITIONAL VIEWS OF SENATOR J. JAMES EXON

The budget resolution which has been reported to the floor of the Senate by a bipartisan 13-4 vote is not the resolution I want to see the Senate adopt. As I indicated during our last Budget Committee session, I supported this resolution only to make certain that the Senate will have an opportunity to work its will on a budget for 1984.

Indeed, the budget process itself was at stake on this vote. I give great credit to both the chairman of our Committee and ranking minority member for having the courage to move ahead with a resolution. Apparently there are some who would rather not have a budget at all, so as to avoid facing the reality of huge, continuing Federal deficits which are now running three to four times the previous record deficits which were set in the mid-1970's. Apparently some officials in both the administration and in Congress would prefer to focus debate solely on appropriation bills. This strategy, which would concentrate attention on relatively small spending issues, might be politically advantageous but would poorly serve the cause of a rational and conservative Federal fiscal policy. Congress and the administration must both summon the courage, as the Budget Committee has, to squarely face the problem of unreasonably high Federal deficits and to deal with them realistically by addressing both the total spending and the total revenue side of the budget.

Even though there is considerable room for improvement of this resolution when it reaches the floor of the Senate, what we have reported is a better fiscal blueprint than either the House of Representatives or the President has put forth. Last February, the President proposed a fiscal 1984 budget deficit of \$189 billion. This included a 10-percent after-inflation increase in defense spending. The House of Representatives has approved a budget deficit of \$174 billion, but had made its budget savings by reducing defense spending increases significantly and used increased revenues to support new domestic spending. I cannot support either of these approaches.

The Senate Budget Committee's plan cuts the defense spending increase to a more moderate 5 percent after inflation, and uses revenue increases for a substantial deficit reduction, resulting in a deficit of \$163 billion, well below the other two plans. Because the Budget Committee's action on the spending side of the budget will have the net effect of reducing spending from what it would be

under current spending policies, the revenue increases approved by the Committee are used for deficit reductions.

I believe it is important to focus on the deficit rather than considering either the spending figures or the revenues in isolation. The reason for this is that each year's deficit adds greatly to our total national debt. Federal borrowing from the private credit markets is one of the primary causes of high interest rates. Furthermore, the net interest which must be paid on the Federal debt has been the fastest growing part of the budget over the past several years. In 1976, net interest on the debt was \$26.7 billion. In successive years it has climbed, in terms of after-inflation growth, by 4 percent, then 11 percent, then another 11 percent, then 13 percent, then 19 percent, and then 15 percent, until it now stands at \$87.3 billion for FY 1983. No other major area of the Federal budget has had such real growth. Is this the way we want to spend our hard earned tax dollars? If the answer is no, the only way to reverse this growth is to focus on cutting the Federal deficit.

It must be pointed out that we would not be facing such large deficits today had Congress accepted the "tax trigger" amendment I offered in 1981. This amendment would have tied the size of the July 1983 tax cut to economic performance. Specifically, interest rates in 1982 would have had to drop in accordance with the President's economic assumptions in order for the full tax cut to go into effect. In fact, I am convinced that had Congress adopted this safety valve, the financial markets would have been assured that Congress was not going to let deficits get out of hand, interest rates might actually have fallen as the President projected, and the full tax cut could have gone into effect without having to borrow to finance it.

When this budget resolution reaches the floor of the Senate, I believe it can be improved by reducing spending more and by reexamining our revenue policies. I will be offering specific amendments to do exactly that. Even though both spending reductions and revenue enhancements reduce the deficit, the major emphasis must be on spending reductions.

J. JAMES EXON.

ADDITIONAL VIEWS OF SENATOR STEVEN D. SYMMS

I would like to express my opposition to the FY 1984 First Concurrent Budget Resolution voted out of the Budget Committee last week.

My objections to the resolution are fundamental. It adds to domestic spending, rather than freezing it, or cutting it. It raises taxes or revenues, when these should be frozen or cut. And it reduces the rate of defense spending growth in a period of dangerous national security crisis. The budget resolution is the reverse of all of President Ronald Reagan's basic political objectives—cutting back domestic government and non-defense spending, cutting taxes, bolstering our national defense, achieving economic growth, and balancing the budget. I strongly support these fiscal principles.

I will oppose this resolution on the Senate floor. I will work to create a new one that will be improved in fundamental ways. Entitlement spending and other non-defense spending must be controlled. The deficits simply must be reduced by taking bigger spending cuts sooner. It is imperative that we preserve predictability in the Federal tax code. This means there should be no changes made, unless they would provide incentives for savings, work, and productivity.

Yours for a free society.

STEVEN D. SYMMS.

ADDITIONAL VIEWS OF SENATOR ROBERT W. KASTEN, JR.

In 1980, President Reagan and I both ran for office on the same fundamental economic principle—to get taxes down and keep them down. The recent actions of the Senate Budget Committee make this promise to the American people short-lived. In fact the revenue assumptions adopted in this budget resolution—an increase of \$267 billion over the next 5 years—set the stage for a repeal of the Reagan revolution.

The tax bite on the American taxpayer has been growing steadily over the last two decades, and the outlook for the future is just as bleak. Under the Committee's budget, taxes as a percent of GNP for fiscal years 1984 through 1988 will average 19.5 percent. This is higher than the average for the 1970's—18.9 percent—and the 1960's—18.6 percent.

The 1981 Tax Act—the Economic Recovery Tax Act—was designed to reverse this upward trend in taxation. Often described as the largest tax cut in history, ERTA provided a 30-percent cut in marginal tax rates over 3 years and indexing of tax rates in 1986. This may have been the largest tax cut ever in 1981, but it isn't in 1983. Table 1 shows that Congress has since added tax increase to tax increase over the last 2 years. Enough to reduce the tax cut by 90 percent. If the Committee's reconciled tax increases are enacted, the tax cut will be wiped out for each and every year after 1983. The American taxpayer will only have had a minor dip in an ever-increasing tax burden.

Table 1
TAX CUTS/TAX INCREASES*
[in billions of dollars]

	1981	1982	1983	1984	1985	1986	1987	1988	Total
1981 tax cut (ERTA)	-0.4	-36	-83	-130	-158	-202	-247	-282	-1,138
1982 tax increase (TEFRA)			17	38	42	52	64	68	281
Gas tax			2	4	4	4	4	4	21
Bracket creep	9	17	32	43	61	83	108	135	489
Social security tax increase	9	16	17	19	29	37	42	46	214
Recently enacted social security tax increase				6	7	7	9	20	49
Net change	18	-3	-14	-20	-18	-19	-20	-10	-84
Tax increase in Senate budget resolution				30	39	52	66	80	264
Net change	18	-3	-14	10	21	33	46	70	183

*Numbers may not add due to rounding.

Interestingly enough, the revenue increases assumed in the budget (table 2) are equal to the revenue that would be gained by repealing the third year 10 percent tax cut and indexing. It is true that this was not the specific assumption of all those who voted for these figures. And, it is true that the Budget Committee is not a line item committee. We do not write the tax law, but the revenue figures given to the Finance Committee would be impossible to achieve any other way. It is also significant that the budget passed by the House of Representatives contains the exact same revenue increase. The House did assume that the revenue would come from repeal of the third year tax cut and indexing.

Table 2

REVENUE EFFECTS OF REPEALING THE THIRD YEAR OF THE TAX CUT AND INDEXING

[In billions of dollars]

	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Third year	30.2	32.9	35.5	38.8	40.9
Indexing		6.2	16.6	27.8	39.6
Total	30.2	39.1	52.1	66.6	80.5

If the third year of the tax cut and indexing go, then the last 2 years of the Reagan revolution will have been in vain. The result would be a massive tax increase that would fall most heavily on the average working American taxpayer. According to the Treasury Department (table 3), repeal would amount to a 24-percent tax increase for those earning less than \$10,000, a 15-percent tax increase for those earning between \$10,000 and \$50,000, and only a 3.1-percent tax increase for those earning more than \$200,000.

Table 3

CHANGE IN TAX LIABILITY DUE TO REPEAL OF THE THIRD PHASE OF THE ACROSS-THE-BOARD RATE REDUCTIONS AND INDEXING

Four-Person, One-Earner Families

[In billions of dollars]

1980 levels of income	Calendar years						Cumulative 1983-88
	1983	1984	1985	1986	1987	1988	
\$10,000:							
Tax under current law	611	673	702	731	758	792	4,267
Tax under repeal of the third phase and indexing	653	749	844	938	1,031	1,108	5,323
Change	42	76	142	207	273	316	1,056

CHANGE IN TAX LIABILITY DUE TO REPEAL OF THE THIRD PHASE OF THE ACROSS-THE-BOARD RATE REDUCTIONS AND INDEXING—Continued

[In billions of dollars]

1980 levels of income	Calendar years						Cumulative 1983-88
	1983	1984	1985	1986	1987	1988	
Percentage change.....	6.9	11.3	20.2	28.3	36.0	39.9	24.7
\$20,000:							
Tax under current law.....	2,296	2,344	2,456	2,566	2,672	2,792	15,126
Tax under repeal of the third phase and indexing.....	2,426	2,633	2,841	3,072	3,308	3,552	17,832
Change.....	130	289	385	506	636	760	2,706
Percentage change.....	5.7	12.3	15.7	19.7	23.8	27.2	17.9
\$30,000:							
Tax under current law.....	4,501	4,647	4,864	5,082	5,295	5,531	29,920
Tax under repeal of the third phase and indexing.....	4,745	5,143	5,581	6,044	6,517	7,006	35,036
Change.....	244	496	717	962	1,222	1,475	5,116
Percentage change.....	5.4	10.7	14.7	18.9	23.1	26.7	17.1
\$40,000:							
Tax under current law.....	7,371	7,627	7,981	8,334	8,684	9,070	49,067
Tax under repeal of the third phase and indexing.....	7,783	8,512	9,231	9,945	10,674	11,493	57,638
Change.....	412	885	1,250	1,611	1,990	2,423	8,571
Percentage change.....	5.6	11.6	15.7	19.3	22.9	26.7	17.5
\$50,000:							
Tax under current law.....	10,741	11,093	11,606	12,120	12,634	13,194	71,388
Tax under repeal of the third phase and indexing.....	11,343	12,376	13,398	14,411	15,445	16,510	83,483
Change.....	602	1,283	1,792	2,291	2,811	3,316	12,095
Percentage change.....	5.6	11.6	15.4	18.9	22.2	25.1	16.9

Note.—Income increases are consistent with the inflation assumptions in the January budget. Tax calculations assume all income is wages and deductible expenses are equal to 23 percent of gross income.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

Repeal of indexing will only help relieve the budget deficit if inflation is rising. In effect, it would provide an automatic tax increase that Congress could use to finance even higher levels of Federal spending. There would obviously be an incentive to pursue inflationary policies, which would reverse the great gains we've made in cutting this in half over the last 2 years, *and* ruin whatever chances we have for economic recovery.

At a time when we are trying to restore the incentives to work, save, and invest, we are taking actions that would undermine our efforts. If you want more of something in our economic system, you must provide an incentive. If you want less of something, you tax

it. Here we are—after adopting an economic recovery program in 1981—turning around and attempting to raise taxes by \$267 billion over the next 5 years in an effort to get the deficits under control.

Last year Congress increased taxes by \$100 billion as the “price we have to pay” to get the deficits under control. This was part of the budget plan that called for \$3 in spending cuts for every dollar in tax increases. The result, however, was exactly the reverse. We got 33 cents in spending cuts for every dollar in tax increases. By my calculations, we still owe about \$2.67 in spending cuts for every tax dollar we raised last year.

The Reagan budget called for \$11 billion more in spending cuts for FY 1984 than the Committee approved. This is unfortunate, since it is only through spending restraint and economic growth that we can truly get the deficits under control. Despite last year's tax increase, the budget deficits have continued to grow. In fact, they've doubled. Clearly this is not the right road to take. We have tried to balance the budget through tax increases in the past, and all we have to show for it is more spending, less savings and investment, and less economic productivity. Tax increases over the past 25 years are a large part of why we are in economic trouble today.

Senator Domenici has vowed to oppose the revenues assumed in this budget on the Senate floor, and I will support him. We have raised taxes enough since the Economic Recovery Tax Act of 1981. It's time to hold the line on revenues, and look carefully at the spending side of the budget. We were elected with a purpose, and it's time to get back to that basic objective—to get taxes down, and keep them down.

ROBERT W. KASTEN, JR.

MINORITY VIEWS OF SENATOR WILLIAM L. ARMSTRONG

An observer at the Senate Budget Committee deliberations this year must have felt like Rip Van Winkle, who took a nap and woke to find he had been asleep for 100 years. Surely, it couldn't have been only 1 year ago that many members of the Budget Committee were strongly opposed to any tax increases because of their negative effects on productivity, incentive, and investment. Surely it can't have been only 2 years ago that a majority of the Committee was convinced that deficits caused major problems in our economy.

This year's deliberations had a strange unreality about them. The Committee dealt only vaguely with the negative economic impacts of mammoth deficits that dwarf any previous shortfalls in our national experience. Few concerns were expressed about the negative fiscal drag that huge tax increases would place upon the economy.

Yet, every Senator knows that the number one responsibility of Congress at this crucial juncture is to nurture and sustain the emerging economic recovery. It is probably impossible to exaggerate the importance of the economic recovery. It is the fulcrum for the hopes and aspirations of virtually every individual American citizen. Home ownership, education, job security, quality health care, cultural growth, and opportunity for the future; all are dependent upon a sound economic recovery.

The development and improvement of our local communities can happen only if economic recovery proceeds. Schools, street, water and sewer systems, hospitals, libraries, parks, police protection and all of the services that are vital to healthy communities depend upon a strong economy to finance them.

The national social programs that have been woven into the fabric of American life cannot be sustained without economic recovery. Social security, medicare, unemployment compensation, aid to dependent children, food stamps and a host of others are financially endangered if economic recovery cannot be realized.

It is not an overstatement to say that peace and stability in the world community depends in great measure upon the economic recovery of the United States. The world banking crisis has brought home the realization that the world is now fatefully interdependent. Rising expectations of millions of people in the developing countries are now closely tied to economic recovery of the United States and the other industrial nations. The frustration of those expectations could well become the most destabilizing force in the world today.

The building of a sound economy to sustain the dreams of people the world over has really been the fundamental goal of the Reagan administration. Three years ago the people of this country had correctly sensed that past policies creating a huge and costly government threatened their economic security. And they voted for leaders who promised to restore America to a position of economic strength and stability.

SIGNIFICANCE OF BUDGET DEFICITS

However, jutting ominously beneath the waves of economic recovery there is a gigantic iceberg in the form of budget deficits which, according to the most recent OMB figures will reach \$209 billion in this fiscal year, \$175 billion next year, and \$969 billion over the next 5 years. If "off-budget" spending is added the actual deficits we'll incur over the next half decade will total \$1.3 trillion.

We all know that this financial iceberg is there. We know that the ship of state is headed straight toward it. A potential catastrophe is imminent. But we're not doing anything about it. We're not even seriously discussing it. Some are even patting themselves on the back because we're steaming toward this hazard at a slightly slower rate than we were during the years when Jimmy Carter was President.

We are in danger—grave danger of choking off the economic recovery upon which so much depends. And we're doing nothing about it. We're asleep at the helm. It we're to avert catastrophe, we must change course, change course dramatically, and change course now. But the attitude so far has been "business as usual." We continue to do all the things that got us into the mess we're in.

Are the Members of Congress deliberately hiding their heads in the sand or are they simply unaware of the potential consequences of the mammoth deficits looming before us? These deficits are so huge that they threaten not only to swamp the recently begun and still fragile economic recovery, but which could ultimately sink the entire economy into a disastrous, world-wide depression.

As I've noted, the projected deficit for the 1983 fiscal year is \$209 billion. The projected deficits for the next 5 years, including "off-budget" expenditures, total \$1.3 trillion. Let me try to put the projected deficit into perspective:

- \$209 billion is more than the combined profits for 1982 of the nation's 125 largest corporations.
- \$209 billion would buy all the homes, factories, churches, hospitals, and office buildings built in America in 1978.
- \$209 billion would buy every automobile sold in America in 1980.
- \$209 billion is more than the total IRS tax collection from 38 of our fifty states.

And \$209 billion, remember, is only the projected deficit for this year. The projected deficit for the next 5 years is \$1.3 trillion.

—\$1.3 trillion is more than the sum total of all Federal Government expenditures from 1789 to 1970.

—\$1.3 trillion is more than the entire gross national product of the United States as recently as 1972.

The mere recitation of these numbers should be enough to send a cold shiver down the spine of every member of this Committee.

Deficits of this magnitude are unprecedented in our history. The question of how to deal with these huge deficits ultimately boils down to three choices:

(1). Let the deficits happen and hope that they do not choke off recovery.

(2). Reduce the deficits through massive tax increases and hope that increased taxes will not stifle recovery.

(3). Reduce expenditures and restructure the programs that are spinning out of control.

A thorough examination of each of these alternatives is vital.

Do deficits matter?

DEFICITS AND THE RECOVERY

There are still those who maintain that "deficits don't matter," or, at least, that they don't matter very much. Perhaps they are right. But, that view is not shared by many. Real interest rates are still nearly three times as high as they have ever been in the history of our republic, and the economists are under no illusions about why this is so.

"The most obvious obstacle to sustained recovery is the prospect of huge federal deficits even as the economy expands," Paul Volcker, the Chairman of the Federal Reserve, warned us in his testimony before our Committee February 24th.

Dr. Jack Carlson, chief economist for the National Association of Realtors, has said, "The strong increase in residential investment and automobile sales have combined with falling world oil prices to improve the prospect of noninflationary economic recovery. However, enormous federal budget deficits for the foreseeable future will keep real interest rates high by historical standards and dampen recovery to only about two-thirds the average recovery of the last 30 years."

Chairman Volcker expressed best why deficits are so serious:

It is not just the direct demand for funds to finance the Treasury that is of concern but the fear that ballooning federal borrowing needs will, in effect, bring extraordinary pressure on the Federal Reserve to monetize the deficits, with implications for inflation itself, for inflation expectations, and for inflation premiums in nominal interest rates. One implication is that, to the extent the budget deficit appears to be intractable, the burden placed on

monetary policy to demonstrate the government's resolve to follow a non-inflationary course is intensified. The converse is equally true: meaningful action to demonstrate the government's economic discipline on the fiscal side would reinforce confidence that monetary policy over the years ahead can do its job in maintaining a course consistent with price stability without intolerable market pressures.

Mr. Volcker asserts, and I concur, that,

It is tempting for some to suggest that the budget problem and its consequences for the performance of the economy could be solved by monetary policy. But excessive money creation to meet the needs of the government would only reinforce and validate the fears of renewed inflation, and sooner or later, higher interest rates. In the end, excessive monetary growth would put us in an even more unsatisfactory situation, with still more deeply ingrained inflation expectations and greater skepticism about the ability of our nation to manage its economic affairs. Nothing real would be gained for long, and hard-won ground in the battle against inflation would be lost.

The U.S. Treasury borrowed a record \$161 billion in 1982. Without a major budget change, it will borrow more than this for the next two years. Despite the large borrowing, interest rates declined substantially in 1982 because of the recession and a more expansive monetary policy. But now that recovery has begun, the clock has started ticking on a financial market time bomb. According to economists at Goldman Sachs, there is some time before it detonates—before rising private and Treasury credit demands tighten “financial capacity” further and put sustained upward pressure on interest rates—although this provides little comfort. In the past, the time lapse has been relatively short. Moreover, the budget deficit has been so large during the last two years that pressure on financial capacity has not eased as it usually does during a recession.

A stimulative monetary policy can neutralize temporarily the upward pressure on short-term interest rates that normally accompanies a tightening in financial capacity. It did so in 1971 and 1976 and may be doing so now. Although this strategy left us with more inflation and higher interest rates later, the Federal Reserve is following this course until the recovery gains sufficient strength to withstand some monetary restraint. Because of this, and because net private saving as a percent of GNP will approach record levels during 1983, any upward pressure on interest rates this year may be relatively minor. But without a major change in the federal budget, financial capacity will tighten and upward pressure on interest rates will intensify in 1984.

The numbers are mind-boggling: Federal budget deficits are projected to average \$175 billion for the next two years and remain over \$100 billion afterwards, even if real economic activity grows at a 4% rate. Goldman Sachs puts it bluntly: “These large budget

deficits are perhaps the single most important roadblock to a substantial (and sustainable) further decline in interest rates because they do not shrink fast enough to prevent our financial capacity from tightening when economic activity picks up and private credit demands accelerate. This is a financial market time bomb."

Deficits do matter. Over the past thirty years, short-term interest rates have always risen as financial capacity tightened. In a recovery fast enough to reduce unemployment, it may be only six to nine months before upward pressure on short-term interest rates begins to build. Stimulative monetary policy can neutralize, or even offset, this pressure temporarily. But if maintained, this only makes the interest/inflation rate explosion more intense later.

Some are unconcerned by these large deficits because private credit demands remain weak for awhile during recovery and the consumer saving rate increases. It is true that two to four quarters into all recoveries (except 1975), the consumer saving rate was higher than at the trough of the recession. In addition, capital spending usually continues to decline early in recoveries while corporate profits rise sharply. But this is not particularly comforting. Despite these developments, private credit demands have risen faster than GNP during the first year of all previous recoveries. More importantly, private credit demands increase faster than savings when economic activity picks up.

Households are the primary and largest source of savings in the economy, accounting for approximately 60 percent of new domestic private savings. And although they are also the second largest borrower—for purchases of homes and durable goods—they are always a net source of savings. The business sector is the largest private borrower, and it always borrows more than it saves. Combined, these sectors account for about 85 percent of private sector credit demand.

During all recoveries, credit demand has risen faster than savings in these sectors. Not once during past recoveries did this ratio begin declining later than one year into recovery, and at times (1954, 1970), only one quarter elapsed before private credit demands started rising faster than saving. On average, the lag has been two quarters—too short a period of time to be unconcerned about the financial effects of large budget deficits. Moreover, a slow recovery is no safeguard against deteriorating net saving in the private sector. In one of the slowest recoveries over the last thirty years (1971) the combined net saving of these sectors started its deterioration earlier than in any other recovery and had one of the largest declines during its first year.

Private credit demands rising faster than savings as recovery proceeds would not necessarily put upward pressure on interest rates if federal budget deficits and borrowing declined fast enough to offset this deterioration in net private savings. Unfortunately, this has not been our experience in the past, and it will be worse in the future without a major reduction in the budget deficit.

Lower spending always results in reduced federal deficits and Treasury borrowing as the economy recovers. But in the past, the deficit has generally not declined fast enough to prevent overall credit demands from continuing to rise faster than savings during recovery.

To sum up, budget deficits have an important, detrimental impact on interest rates, despite the fact that temporarily short-term interest rates and federal deficits are moving in opposite directions. In an economy like the United States, where saving rates are low and credit demands are more sensitive than savings to changes in economic activity, large budget deficits absorb an increasing share of the savings generated by the economy. This hastens and intensifies the tightening financial capacity during the recovery. Under these conditions, increasing doses of monetary stimulus are required to keep the recovery fast enough to reduce unemployment and prevent rising interest rates from slowing the recovery. But ultimately, this raises inflation and interest rates anyway.

INCREASED TAXES—WRONG REMEDY FOR SUSTAINED RECOVERY

Although I think it is clear that deficits do matter because of their impact on interest rates, it is important to keep in mind another key issue. It is government spending itself that crowds out private investment, not the method in which spending is financed. If the government spends 24.7% of GNP in fiscal year 1984, then it must extract resources equaling 24.7% of the GNP from the private sector. It must do this regardless of whether the spending is financed by (the resources extracted by) a deficit, taxes, printing money, or a lottery.

Yet, the Senate Budget Committee seems determined to ignore this more important fact of life by proposing to reduce the deficit almost entirely through tax increases, allowing spending to go on its merry way. Can we solve the ominous deficit problem through tax increases—particularly in the magnitude proposed by the House? The Ways and Means Committee Chairman Rostenkowski has proposed a "freeze" on future tax reduction.

Any tax reduction scheduled to take effect after January 1, 1984 would be eliminated under the Rostenkowski plan, including tax indexing. The revenue mark accepted by the Senate Budget Committee also implies, in my view, the repeal of tax indexing as well as the third year of the tax cut.

Those who favor expansive federal budgets have always opposed the idea of indexing the tax code. This is because, as we all know, taxes can be raised without Congress having to legislate increases. The mechanism, of course, is bracket creep caused by inflation. In fact, Congress has, in the past, enacted periodic "tax cuts," generally in election years, and still kept revenues intact. I strongly support the contention that a sound criterion for good tax policy would require that revenues not be raised without a vote by the representatives of the American people.

Given the magnitude of the deficit and the unwillingness of Congress to come to grips with spending, the temptation of an inflationary run up of the money supply would be almost fatally seductive, if indexing is not implemented. Bracket creep is an extremely effective, though dishonest, revenue raiser. Of course, it is also a primary obstacle to economic growth, saving, and investment. As a reminder, consider the final period of the Carter Administration when, in fact, the deficit was narrowing due to increased revenues through bracket creep—and the prime rate rose to above 20%.

Taxes have adverse effects on the health of our country's industrial base. Imagine what business planners must be thinking. For the third year in a row, major changes in the U.S. tax code are likely. In 1981 Congress passed the largest tax cut in history, but in 1982 Congress passed the largest tax increases in history; in 1983 Congress will attempt to raise taxes once again at the behest of this Committee. It is no wonder that capital spending is low—firms and individuals now have absolutely no idea how the returns to their investments will be taxed.

The Administration is considering a contingency tax plan. Under such a plan, should the federal deficit exceed some fixed percentage of GNP, tax increases would be triggered in the years 1986-88. The only effect of such a plan would be to destabilize the business climate further.

How will a contingency tax plan affect business planning? In the first instance, a rational business planner would have to treat the probability of tax hikes in 1986-88 as a dead certainty. Further, with the actions taken by this committee business planners can now try and guess where the Finance Committee will come up with \$306 billion. Considering the track record of government predictions on the size of the deficit, and the size of recent deficits, the chances of the 1986 deficit being under the requisite percent of GNP are slim, indeed.

Somewhere there is the illusion that tax increases three to five years down the road won't affect investment now.

Planners cannot forecast the distant future so investment decisions are based on forecasts of activity and government policy over a three to ten year period. It is obvious that the existence of a contingency tax plan inhibits this process. Once an investment decision is made, there is a lag of about five years until the new capital is actually in place. And most investments are expected to generate returns over a substantial number of years.

In a period of depressed capital spending, injecting more uncertainty through a contingency tax plan can only further depress investment. It is a mystery why the perception persists that if the government funds spending by borrowing, it crowds out investment, but if it funds spending by taxes, it doesn't. For if there is only one thing that is certain in the entire debate about deficits, government spending and taxes it is the fact that it is *government spending* itself that crowds out private initiative; if business taxes are raised, investment will decline. If personal taxes are raised sav-

ings and personal disposable income will decline. A significant portion of our current recovery rests on resumption of consumer spending.

It is clear that substantial tax increases also carry with them the promise of stifling a healthy economic recovery.

And so we come to the third choice, reducing spending.

SPENDING CUTS—FORCING TOUGH DECISIONS

Despite the massive evidence of impending catastrophe if we keep spending money as we have been, there are Members of this Committee who assert that the budget cannot be cut at all.

Nonsense. It will not, of course, be easy to get government spending under control. Politically painful choices will have to be made. But government spending not only can be cut, it must be cut.

Areas of the Federal budget where cuts can be made are legion. Here are a few:

—In the early 1970's, the federal government spent \$177 million to make Union Station a "National Visitors Center." It was a catastrophe. The National Visitors Center was about the only place visitors to the Nation's Capital didn't visit. The Department of Transportation is now preparing to spend another \$70 million to convert the Visitor's Center back into a train station.

—The outdated requirements of the Davis-Bacon Act continue to jack up costs of federal construction projects. According to the General Accounting Office, this law is impractical to administer, has significantly added to the cost of federal projects, and makes it difficult for minority business to enter the construction field. In short, GAO advocates the repeal of Davis-Bacon. One source estimates that repeal of Davis-Bacon would result in budget savings of \$2.9 billion from 1984 to 1986.

—With increased domestic oil production and excess world capacity, we should re-examine the so-called Strategic Petroleum Reserve. Continuing on this program without any adjustment calls for spending another \$12 billion, which we don't have.

—Our agricultural subsidy programs could stand some rethinking. In this fiscal year, the government will spend more than \$17 billion for price support programs of various kinds, including price supports for tobacco, a crop which is not essential for the health or well-being of mankind. These subsidies have encouraged the production of huge deteriorating surpluses which have in turn become a major cost to the taxpayers. We'll spend approximately \$1 billion this year to just store surplus dairy products.

—Under the provisions of the Cargo Preference Act, the federal government is required to ship on U.S. owned ships half of the food assistance we send to other countries. This amounts to

a subsidy to the maritime industry and in one case meant an additional \$40-\$50 per ton for shipping flour overseas. The Congressional Budget Office estimates a savings of \$2.3 billion from 1984 to 1988 if Congress acts to eliminate this subsidy.

—The growth of spending for all the various federal entitlement programs has been phenomenal. Benefits under most of these programs have grown faster than the wages of those paying taxes to fund them. And, rates of growth are projected to continue at a much faster level than the economy as a whole. While many of these programs are helping the neediest of our citizens, a Census Bureau survey for 1981 revealed that 35.7 per cent of the income tested benefits covered in the survey (AFDC, SSI, food stamps, medicaid, free or reduced price school lunches, and assisted housing) went to households with incomes above the poverty level—some \$16.9 billion going to over 23 million recipients. Individuals from households with incomes exceeding 150 per cent of the poverty level received \$8.3 billion in benefits under these programs.

—Billions upon billions of dollars have been spent for federally assisted housing programs. Additional billions will be spent in the future simply to meet existing obligations. If Congress never authorized another housing program, the federal government is still obligated to spend an estimated \$310 billion on into the future to meet requirements stemming from earlier congressional action. Yet, in the same week the Budget Committee was acting on this Budget Resolution, the Banking Committee voted for a new housing bill with \$6 billion in new long-term spending above the President's budget.

It seems clear to me the argument that we can't cut spending is phony. It isn't that we can't cut spending, it's that we don't want to. We continue to put narrow political interests ahead of the overriding public interest. And, we have used phony arguments about the causes of deficits to justify the spending we haven't the courage to stop.

We do not have deficits because of a lack of productive work by the American people. From 1962 through 1982, our gross national product grew from \$506 billion to \$1.47 trillion, an increase of 300% in constant dollars.

We do not have deficits because of a lack of sufficient tax revenues. From 1960 through 1980, tax revenues for the federal government swelled from \$91.8 billion to \$519 billion, an increase of 560%; 260% greater than the growth in national income.

Nor do we have deficits because of the burdens imposed by our responsibility to defend the nation. Defense spending has fallen from 49% of the federal budget, and 9% of GNP in 1962 to 23.4% of the budget and 5.3% of GNP in 1982. If the ratio of defense to non-defense spending were the same today as it was when John F. Kennedy was President, we would have, even with the President's substantial proposed increase in defense spending, a budget surplus of \$113 billion instead of a deficit that may approach \$209 billion.

THE BUDGET PROCESS

Finally, it is important to comment on the Congressional budget process itself. At some point Congress should be duty bound to look at the full consequence of the taxing and spending policies we adopt. The work of the Budget Committee is and should be central to the work of the Congress. We must establish the parameters within which a responsible appropriations process can be carried out. It is truly unfortunate that such a process was not in place from the beginning of our country. If it had been we would have avoided the irresponsible mind-set that committees can authorize programs and appropriate vast sums for them as if there were no obligation to discipline their actions and to keep the system in balance.

It is a painful process. By its very nature the process established by the Budget and Impoundment Act of 1974 is one of confrontation. As members of Congress challenged the deficit mentality, the confrontation will become increasingly intense.

The process cannot operate like a smooth, well-oiled machine. In the years that it seemed to work that way, it was in fact not working at all. Budget marks were adopted that were only vague goals which no one believed in and the process was meaningless. The fact that the Budget Resolution is now the subject of intense debate means that the process is beginning to work as the disciplinary measure it was intended to be.

The Budget Resolution being brought to the Senate floor is, in my opinion, badly flawed and I consider it to be dangerous to the economic future of our country. But the budget process continues on the floor and there the central issue of how to deal with a \$200 billion deficit must be faced. It will be a tough and painful period of great stress to both legislative bodies of the Congress.

And, it should be. We are debating a central issue of our time.

WILLIAM L. ARMSTRONG.

MINORITY VIEWS OF SENATOR ORRIN G. HATCH

Caveant Tributa Solventes

I regret that Congress is once again beginning to use the congressional budget process to raise taxes.

The 1974 passage of the Congressional Budget Act raised the expectations of all of us who hoped, at last, for a rational fiscal policy from the Federal Government. We expected that this new budget process would be used to maintain some control over the burgeoning increase in Federal expenditures. We had hoped that this new process would provide a voice for the one constituency that hitherto had been greatly under-represented in Congress—the nation's taxpayers.

In 1974, those taxpayers had just been treated to a decade of inflation which drove them into higher tax brackets as their wages rose simply to adjust for general price-level inflation. This inflation had been most convenient for Government, and for the big spenders in Congress, because each additional percentage point of inflation increase meant revenue increases of 1.6 percent. At a time when special-interest groups successfully encouraged Congress to increase the funds available for their constituencies, there was no institution on Capitol Hill to represent the taxpayers.

Our hopes have been dashed time and again. The budget process has turned out to be little more than an engine for increasing Federal spending and raising taxes. In the 7-year period prior to the Budget Act, Federal spending increased 19 percent in real terms. Although that was an amount greater than many of us would probably endorse, at least it was a rate within the capacity of the economy to absorb. In contrast, in the 7 years following implementation of the Act, Federal outlays grew a whopping 31 percent in real terms. Over the same period, total revenues—or taxes—increased, showing a 31-percent overall growth, nearly three times higher than the 11 percent overall growth in the 7-year period before this "tool of fiscal restraint and control" was enacted. Likewise, the cumulative deficit of \$108.6 billion of the 7 prior years mushroomed to \$292 billion in the same period following the Budget Act.

Once again, the congressional budget process has been used to promote Federal spending and increased taxes. The budget proposal made by the Senate Budget Committee requests \$267 billion more in taxes in the years 1984–88. It asks for increases of an addi-

tional \$132 billion in domestic spending by 1988. Total spending would rise \$42 billion in 1984 alone. Since there is no control on the spending side, the projected national debt in the year 1988 will be more than \$2.3 trillion.

The deficit projected for this type of program demonstrates the lack of will to address the real problem in our budget, the growing expenditure side. The only spending cuts recommended so far have been excessive cuts in the defense spending necessary to protect our national security—a critical, fundamental task of the national government. These cuts have been proposed first by the House and now, unfortunately, by a majority of my colleagues on the Senate Budget Committee. If the full Senate follows the lead of the House and the Senate Budget Committee, it will irresponsibly increase domestic spending, thereby wiping out the hard-won savings of the last 2 years.

These deep defense cuts and “enhanced revenues” are necessitated, we are told, because of current and projected future deficits. The Reagan administration’s 1981 tax cuts and indexing proposals are to blame for these deficits, the argument continues. Nonsense. The deficits are the accumulated results of years of fiscal mismanagement, of attempts to manipulate the economy and the business cycle. Continuous Federal deficits over the past 2 decades have put upward pressure on interest rates. The prime rate, which averaged 3.3 percent in the 1950’s, has climbed to an average rate of 8.6 percent over the last 10 years, soaring even higher in 1980 and 1981.

The current and projected deficits are the results of these past erroneous policies. They are *not* the result of tax rate reductions. Those reductions were not implemented until well after the 7-year period following implementation of the Congressional Budget Act, by which time deficits and economic problems were well under way. The tax cuts only unmasked the accelerating growth in Federal spending. The rate reductions lowered the burden of taxes on the economy and the American taxpayer from its historic high of 20.1 percent of GNP at the end of the Carter administration and returned it to its traditional level of approximately 18.5 percent by FY 1983. In 1980, total Federal spending equalled 23.0 percent of GNP, but, even with the Reagan administration’s attempts to restrain it, Federal spending is estimated to climb to a whopping 25.7 percent of GNP by the end of 1983.

Those proposing increased taxes under the guise of dire deficit projections are only trying to return to the days when the congressional budget process was used to develop and maintain spending constituencies.

New taxes will not help with the problem that must be addressed, the problem of massive Federal spending. If the third year of the tax cut were to be taken away, all the pressure to cut spending would be removed. Raising taxes just makes spending easier, as the House budget demonstrates. Higher taxes have failed to balance the budget in the past, and there is no reason to think they will in the future. Let the taxpayer beware.

ORRIN G. HATCH.

MINORITY VIEWS OF SENATOR JOHN TOWER

In 1980, Republicans gained control of the Senate after nearly twenty years as the minority party. We did so by promising the American people tax relief and a strong national defense. The Budget Resolution approved by the Senate Budget Committee is inconsistent with the fundamentals of the Republican program.

The Committee action on National Defense, Function 050, amounts to a reduction in Budget Authority of over \$120 billion during the next five years. This reduction is tragically short-sighted and represents a serious retreat from the national consensus to rebuild our nation's defense.

As reported, the Committee mark is not only \$13 billion below the President's defense budget request for FY84, but it is more than \$10 billion below the amount projected for FY84 in the FY83 First Concurrent Budget Resolution.

The Committee action was based on the false assumptions about the role of defense spending on the economy, and on a misguided sense of national priorities. The Committee expressed no interest or concern about the growth in Soviet military power, or the expanding threats to our vital national interests. The defense spending path proposed by the Committee makes it unlikely that the military balance will ever be restored. I therefore find it wholly unacceptable.

Put simply, the Committee is abandoning its earlier commitment to rebuild our national defense after more than a decade of neglect.

Today the major economic objectives of Congress in fashioning a budget is to establish those policies that will mean lower interest rates, a sustained recovery, and a continued restoration of confidence in the future strength of our economy. This budget resolution does not meet any of these objectives. It raise taxes at a time when the economic recovery is in its earliest stages, and through its repeal of indexing and increasing spending signals the capital markets that a new bout of inflation is at hand. In resorting to the failed past fiscal policy of tax and tax, spend and spend, it reverses two years of progress.

An economic recovery usually proceeds in three stages; first inventories are drastically reduced, with the result that producers increase production just to meet the current recession influenced level of demand; second, consumers increase their spending and the

recovery becomes self-reinforcing; third, capital spending increases. The United States economy is not just entering the second stage.

As the economy moves beyond the inventory liquidation stage of a recovery, increased consumer spending and efforts are essential for the recovery to be a sustained one. There are some signs that consumers are ready to return to the market. Their net worth and the borrowing potential and thus their purchasing power has increased substantially. Encouraged by a new tax policy that rewards individual effort by reducing marginal rates, and by sharply reduced interest and inflation rates, consumer confidence is increasing. But consumers remain cautious; retail sales were up only slightly in March after three months of declines, and auto sales have been flat over the last two months. And yet at the very time that consumers need all the encouragement that they can get, the Senate Budget Committee has decided to cancel both the July tax cut and indexing. This reduces consumer purchasing power, and as consumer spending is nearly two-thirds of the Gross National Product, seriously threatens the economic recovery. Although the Committee states that "... its recommendations do not assume the cancellation or deferral of either the third year of the individual tax reductions approved in 1981 or the income tax indexing provisions now scheduled to take effect in 1985", it is evident from the chart below that there is not a dime's worth of difference between the Committee revenue mark and the revenues raised by such actions.

[In billions of dollars]						
	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	Total
Cancellation of July 1, 1983 rate reduction	30.2	32.9	35.3	37.8	40.4	176.6
Cancel indexing		6.2	16.6	27.8	39.6	90.2
Total	30.2	39.1	51.9	65.6	80.0	266.8
Committee recommendation	30.2	39.1	51.9	65.6	80.0	266.8
Difference	0	0	0	0	0	0

High interest rates continue to stand in the way of a sustained recovery. Most financial analysts agree that fear of future inflation keeps rates at historically high levels. Because this Budget Resolution increases federal spending 300 billion over the next six years, and effectively cancels indexing, it can only add to these fears, and drive up interest rates.

Before indexing was enacted, inflation had the side effect of increasing government revenues, in effect imposing an unlegislated tax increase upon the American taxpayer. Historically, this was accompanied by a rapid increase in spending and government deficits. Indexing provides protection against "taxflation" and removes the temptation to translate revenue windfalls into deficit spending.

One way of measuring the degree of fiscal restraint in a budget resolution is to examine the relationship between the amount of tax increases and spending reductions. Congress attempted in last year's budget resolution to match every \$1 increase in taxes with \$3 in spending reductions; unfortunately this was not achieved. In this year's budget resolution this relationship has very badly deteriorated; over the FY 1984 to 1986 time period, every \$1 in reconciled tax increases is matched by a mere 11¢ in reconciled spending reductions.

RECONCILED TAX INCREASES VS. SPENDING REDUCTIONS

[In billions of dollars]

	FY 1984	FY 1985	FY 1986	Total
Tax increases.....	30.2	39.1	51.9	121.2
Spending reductions.....	3.1	4.8	5.9	13.8
Spending reductions for every dollar of tax increases (cents)...	0.10	0.12	0.11	0.11

The repeal of indexing and the increases in Government spending send a clear message to the capital markets of a return to the out of control spending and burdensome tax policies of the past. This can only mean a higher interest rates ahead for American consumers and businesses.

I hope that a serious effort will be made on the Senate floor to bring this budget resolution back into line with the hopes and expectations that Americans have had under President Reagan's Administration. I am convinced that there is still a consensus for a strong national defense, and the Budget Committee recommendation simply does not guarantee the strength Americans want and have been promised. I am also convinced that there is broad support for the Reagan tax program, including the third year of the tax cut and indexing. Finally, I have sensed throughout my travels in this country a fresh confidence in America—a confidence in our underlying economic system, in our foreign policy, and in our national security. I am greatly concerned that the enactment of the budget—a budget that unfairly confiscates hard earned wages and fails to guarantee long-term national security—will dilute that confidence, and compromise the effective leadership President Reagan has offered. I hope the Senate as a whole will make more prudent decisions that those of its Budget Committee.

JOHN TOWER.

MINORITY VIEWS OF SENATOR CHARLES E. GRASSLEY

I wish to express my deep disappointment in the budget resolution passed by this committee for fiscal year 1984. Although I recognize the tremendous difficulties involved in reaching a consensus, given the disparate views of the committee's membership, I do believe the possibility remained for reaching a Republican, more conservative resolution.

I am troubled by this resolution for several reasons. In the first instance, it is a Democratic resolution. A Republican majority on a committee backed by a Republican Senate and a Republican Administration should not do the other party's work for them. This is inexcusable. Despite the varying concerns of the Republican sides, more time and effort should have been devoted to reaching a more responsible resolution that would assist the economy's recovery. Instead, we ended up with a budget which, if left unchanged, might very well serve to drive the final nail in recovery's coffin.

The most damaging aspect of the committee's resolution is the precipitous increase in taxes beginning in fiscal year 1984. This tax hike spells doom for both the third phase of the 25 percent rate reduction, and for the indexing of tax brackets to offset "bracket creep".

At a time when the economy is struggling and has been for several years, the last action we should contemplate taking is a tax increase, particularly of the \$30 billion magnitude contained in this document. In times of recession, economic policy should be formulated with an eye toward stepped-up economic activity and growth. That means getting a handle on long-term spending, and *preventing* tax increases.

Beyond the destruction imminent to the economy with the repeal of indexing and the third year, immitigable damage may have been done to the welfare of the individual taxpayer of this country. That would be the biggest injustice of all. In my opinion, we could have made no bigger mistake in this Republican-controlled committee than to dash the hopes of working men and women by calling for repeal of the tax relief they deserve and depend on.

Despite all rhetoric to the contrary, this resolution, in effect, does call for repeal of the third year and tax indexing. The Congress' Joint Committee on Taxation estimates that if the third year is repealed, the revenue pick-up would be the following:

[In billions of dollars]

1983	1984	1985	1986	1987	1988
7.2	30.2	32.9	35.5	40.9	40.9

If indexing were repealed, the revenue pick-up would be the following:

[In billions of dollars]

1985	1986	1987	1988
6.2	16.7	27.9	39.9

The combined increase of these two provisions is the following:

[In billions of dollars]

1984	1985	1986	1987	1988
30.2	39.1	52.2	66.0	80.8

There is no coincidence, then, that the revenue mark adopted by the Senate Budget Committee in this resolution is virtually identical:

[In billions of dollars]

1984	1985	1986	1987	1988
30.2	39.1	51.9	65.6	80.0

The bottom line reads a repeal of both the third year and indexing:

There has been much said about how the tax reduction legislation of 1981 has eroded the tax base and caused the tremendous deficits we now face. The proposition is fallacious in light of recent tax legislation passed last year and this to restore some of the tax base. There is no legitimate need to eliminate the third year and indexing to narrow the deficits because those two measures have not caused the problem.

Table 1 below proves this conclusively. It shows the net effects of current tax policy, including last year's tax bill, the bipartisan Social Security tax increase and the Surface Transportation Assistance Act of 1982. Indexing and the third year are included in current law.

A COMPARISON OF TAX INCREASES DUE TO BRACKET CREEP AND SOCIAL SECURITY RATE INCREASES WITH THE NET TAX REDUCTIONS ENACTED DURING THE REAGAN ADMINISTRATION AND THE BI-PARTISAN SOCIAL SECURITY PLAN

(In billions of dollars)

	Fiscal years					
	1983	1984	1985	1986	1987	1988
Tax increases:						
Bracket creep ¹	31.8	43.4	60.5	83.0	107.9	135.3
Scheduled social security rate increases under present law ²	17.3	18.6	28.5	37.0	41.5	45.5
Total.....	49.1	62.0	89.0	120.0	149.4	180.8
Net tax reductions:						
Net tax change enacted under the Economic Recovery Tax Act of 1981, the Tax Equity and Fiscal Responsibility Act of 1982 and the Surface Transportation Assistance Act of 1942	-63.5	-88.2	-112.1	-146.3	-179.2	-210.7
Bi-partisan social security plan		8.2	5.8	8.9	10.7	22.3
Total.....	-63.5	-80.0	-106.3	-137.4	-168.5	-188.4
Net change in receipts.....	-14.4	-18.0	-17.3	-17.4	-19.1	-7.6

¹ The amounts shown are increases in individual income tax receipts obtained from the increase in the effective tax rate since 1980.

² Rate increases from the structure in effect in 1980.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

The net change in tax receipts as indicated in table 1 shows an average revenue cut of \$15.6 billion from Fiscal Years 1983 to 1988. That hardly seems like a staggering loss of revenues, especially considering the size of the deficits we are now faced with. The CBO baseline deficits over that same period of time average over \$225 billion. It is quite evident that \$15.6 billion is not going to cause a \$225 billion problem. So in my estimation, repeal of indexing and the third year would not only not solve the problem, but it would make an already poor situation progressively worse.

Repeal of indexing and the third year would hit disproportionately on lower income workers. Suffering most would be those earning less than \$10,000 a year, while those making over \$200,000 per year would suffer least. Table 2 shows this distribution rather dramatically. Column 5 (from left) shows the percentage increase in tax liability if the third year were repealed. Those making under \$10,000 would have to pay 13.9 percent more in 1984. Meanwhile, those making \$200,000 and more would pay less than 3 percent more.

On the same table, in column 8, the effects of repealing indexing are displayed. The percentage increases in tax liability are much more dramatically disproportionate. Those making under \$10,000 are hit by more than three times the average. And column 11 shows the effects of repealing both the third year and indexing. There is no doubt that repeal of these measures would hurt workers in the lowest tax brackets. In the case of indexing, lower-income workers are hit hardest because their brackets are narrowest and inflation causes their incomes to rise through the brackets fastest. In addition, the zero bracket and personal exemptions are quite large, relative to total income. So without indexing, these exemptions lose their real value.

On the other hand, the upper-income worker may already be in the top tax bracket and therefore have nothing to gain from indexing, or nothing to lose by its repeal.

In the final analysis, then, repeal of the third year and indexing would be aimed directly at the "little guy". The entire 25 percent tax cut will have been repealed by 1989. The three-year tax cut will have become nothing more than a reduction in the top tax rate from 70 percent to 50 percent. Only the high income families would come out ahead on a permanent basis.

While I am critical of the revenue numbers in this resolution and its implications on tax policy, I am equally critical of the lack of dramatic changes in long-term spending. I am not satisfied that we have cut as much spending as we can, nor as much as we should. And obviously, the less spending we cut, the more taxes we must raise in order to show a narrowing deficit on paper.

In last year's budget resolution, the resolve was to cut nearly three dollars in spending for each dollar raised in revenue. To this day, we have two dollars raised in taxes for every one cut from spending.

Part of the reluctance to cut spending is attributable to the lack of political will to do so. Congress inevitably pursues the easy way out, granting more and more funding for special interests at the expense of the taxpayer's purse. One would think it would take an economic emergency before Congress would put the lid on spending so much of the private sector's hard-earned money. Yet despite the troubled economy we are emerged in today, the action taken by this committee proves that, emergency or not, Congress will proceed with business as usual.

The chief cause of this institution's reluctance to cut spending is perhaps its insistence on equating more money with problem-solving. I have spent several months during this session proving that more money does not solve problems, but in fact tends to cause them. Washington seems to be more intent on input than output. We lack strategies, goals and performance controls to ensure that our government and our economy are running efficiently. Instead, the emphasis is put on raising money and ignoring performance.

Since January, I have delved into the question of how to make the government run more effectively with no new monies. It is an attempt on my part to prove that spending can be frozen without hurting output. My investigation began with the defense budget. I have pointed out in detail recently the many structural problems that exist in the Pentagon which tend to drive costs substantially upward while reducing the quantities desired. Such problems are by no means peculiar to defense, but rather exist throughout our government, and in fact are symptomatic of any bureaucracy.

The key to bringing federal spending under control, I am convinced, is to bring such problems out into the public realm, to debate them, find solutions, and to let the public know what we are doing to solve the problems. But to do that takes leadership. It takes a Congress willing to deal with very complex problems, and an Administration willing to implement changes. There is much to be done, and little time in which to do it. I fear that we have now taken a step backwards as a result of this budget resolution.

Next week, when the budget resolution reaches the Senate floor, I will continue to press for further spending reductions and preservation of the third year and tax indexing. I will continue to pinpoint the structural changes needed to bring about more effective governing. There is still time to reverse the direction implied in this committee's resolution. In 1980, Republicans made a solid commitment to the working men and women of this country. We seem to be drifting from that resolve. We need to redefine our goals and recapture our audience. We need to reconfirm our commitment to the common man. The resolution passed by this committee will merely keep us adrift.

CHARLES E. GRASSLEY.

MINORITY VIEWS OF SENATOR DAN QUAYLE

I am unable to support the First Concurrent Budget Resolution for FY 1984 which has been reported by the Senate Budget Committee. In my opinion, the reported resolution falls far short of what such a resolution should be. This year, our primary priorities should be to strengthen our just-begun economic recovery and prepare a firm foundation for sustained economic growth in the future. The First Concurrent Budget Resolution which establishes our spending targets for the next year and projections for the next 5, should be based on a clear understanding of what is required for such a sustained economic recovery. I believe that this reported First Concurrent Budget Resolution does not reflect such an understanding.

The reported budget resolution attempts to reduce out-year deficits by cutting the national defense function while significantly raising taxes. Spending for the non-defense functions of the Government is significantly increased when compared to last year.

Overall spending in this reported resolution for FY 1984 is increased by \$33 billion in budget authority and \$42 billion in outlays compared to FY 1983. Non-defense spending will increase by \$14 billion in outlays.

While it is certainly true that the resolution makes spending cuts from the projected baseline, these are overwhelmingly in the national defense function. When budget authority for FY 1984 is compared to the baseline (current policy estimated by CBO adjusted for inflation), the resolution adds a total of \$3.5 billion. However, this consists of a cut of \$11.3 billion in defense together with an increase in non-defense budget authority of \$14.8 billion.

While it certainly is true that deficits are shown to decline in the out-years under this resolution, this is accomplished largely through the imposition of very heavy tax increases, a policy which I believe could endanger our efforts to achieve a sustained economic recovery. Increased taxes will mean increased costs to business and individuals alike, just when we want business to expand, consumers to spend, and workers to be hired.

Under this budget resolution, taxes will be increased by a total of \$266.8 billion over the next 5 years. In FY 1984 \$30 billion will be raised—an amount that can most efficiently be amassed through repeal of the third year of the tax cut. The out-year revenue increases of more than \$50 billion in FY 1986, \$65 billion in FY 1987, and \$80 billion in FY 1988, can only be achieved by the repeal of

tax indexing. The burden will be placed on the back of the middle-income taxpayer once again.

In sum, I cannot support this budget resolution because I believe its priorities are out of balance. Spending cuts should be made throughout the budget, not just in defense. Deficits need to be restrained but not by the reimposition of high tax rates and bracket creep.

DAN QUAYLE.

MINORITY VIEWS OF SENATOR ERNEST F. HOLLINGS

There is very little to be proud of in this budget resolution. The deficits are too high, the spending priorities are unfair, and the budget process has been emasculated. Any "victory" claimed by either side will be shallow and short-lived. And as the case has been for the last 3 years, the Nation and the economy will be the losers.

Slowly, we are seeing the signs of an economic upturn. But as recent data indicate, this much-heralded recovery is weak and fragile. Yet this budget resolution contains deficits that will add \$906 billion to the national debt between now and 1988. Over \$600 billion alone will be required to make our interest payments.

The simple fact of the matter is that such deficits are a roadblock to investment, recovery, and reemployment. Government borrowing will crowd out private investment and will hinder any sustained period of economic growth. Compounding this will be the pressures that these deficits will exert on monetary policy.

We all know that an accommodative monetary policy is desirable and necessary to get this economy moving again. But we also know—even if we will not now admit it to ourselves—that the Federal Reserve will be called upon to loosen the reins even more in order to offset massive Federal borrowing. Economists may call this "monetizing the debt" but we all recognize it for what it is—another round of running the printing presses. The inevitable result will be another bout of high inflation, high interest rates, and a stillborn economic recovery.

Putting ourselves in such a no-win situation is simply unacceptable. It will fool no one from Wall Street to Main Street. But that is what the fiscal policy of this resolution is leading us toward. We can either accept these deficits and see the recovery thwarted now, or we can accept these deficits and then monetize, inflate, and later see the recovery thwarted. It is a classic "pay me now or pay me later" situation that reconfirms the fact that there never was, and never will be, a free lunch.

The spending program of this resolution is also a problem because it is unfair and ineffective. While there is no doubt that spending must be brought under control, another dose of modified Reagan/Stockman program cuts is not the answer. For the last 2 years we have followed that course and the deficit is larger than ever. And cutting billions more in medicare, housing, education,

nutrition, etc., will not do the trick today—simply look at the deficits that the resolution contains and you will be convinced of that.

The only practical way out is to freeze everything that realistically can be controlled. Such a proposal would get the deficit on a glide path into the black. And as the following table shows, we could reduce the deficit to less than \$70 billion by 1988 and reduce the cumulative debt for the period by over \$600 billion. This is \$172 billion less in deficit spending and Federal borrowing than this resolution endorses. It is \$280 billion less that the President's budget recommends.

HOLLINGS PROPOSAL TO REDUCE PROJECTED DEFICITS

[In billions of dollars]

	1983	1984	1985	1986	1987	1988	5-yr total
CBO BASELINE DEFICIT ¹	196.5	196.2	205.1	225.3	255.2	270.9	1,349.2
DEFICIT REDUCTIONS:							
SPENDING:							
(1) COLA's—half year freeze beginning July 1, 1983; 3 percent cap in 1984 to 1988 (exempt food stamps and SSI). Medicare, medicaid, AFDC, etc., are unaffected since these programs do not have automatic COLA's.		-0.7	-2.7	-6.6	-9.7	-11.8	-31.5
(2) Federal pay—half-year freeze beginning Oct. 1, 1983; 3 percent cap in 1984 to 1988 (includes military and civilian personnel; does not preclude special military recruitment and retention pay).....		-0.7	-3.8	-7.3	-10.2	-13.1	-35.1
(3) Defense—3 percent real growth in budget authority for defense purchases each year.....		-6.0	-19.8	-34.2	-43.4	-51.1	-154.5
(4) Discretionary budget authority program freeze.....		-2.1	-6.0	-10.6	-15.6	-20.6	-54.9
(5) Interest savings.....	-0.2	-2.0	-5.9	-11.5	-18.4	-27.2	-65.2
REVENUES:							
(1) Repeal indexing.....		-6.2	-16.6	-27.8	-39.6	-51.1	-154.5
(2) Eliminate July 1983 10 percent rate cut.....		-7.2	-30.2	-32.9	-35.3	-37.8	-183.8
REMAINING DEFICIT	189.1	154.5	127.8	103.2	92.3	67.1	734.0

¹ Includes President's defense request as reestimated by CBO and impact of jobs and social security bills.

But perhaps more importantly, a budget freeze is fair. There are no cuts and there are no increases. It calls for discipline and shared sacrifice across-the-board; not just in programs arbitrarily chosen by the administration. And, it is certainly not novel. It is going on everyday in America: in corporate boardrooms and union

headquarters, in city halls and State capitols, and in family budgets and personal allowances. The irony is that we here in Washington cannot show equal restraint and discipline. It is a sad commentary that the special interests are again put above the public interest.

And, finally, this resolution is another setback for the congressional budget process. For 3 years now, the administration and its supporters have used and abused the Budget Act. In 1981, it was the vehicle that surreptitiously started us down the road of supply side tax cuts, record deficits, and economic collapse. In 1982, when that sham had turned into shame, the budget resolution became a "backroom" document. It was prepared and agreed upon outside of the Committee and then rammed through the Committee. And now in 1983, the final nail is being driven in. What we are seeing is the budget process being used as the vehicle of its own self-destruction.

Almost as quickly as people voted for this resolution, they disowned it and called for a rewrite on the Senate floor. That is certainly not the way the Budget Act envisioned this Committee's deliberations. And while many take heart that this was a vote to "save" the "process", all we have really done is move from the "backroom" to the cloakroom. That to me is certainly a strange way to carry out the responsibilities of this Committee. Instead of working its will, the Committee appears to have lost its will.

ERNEST F. HOLLINGS.

